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ECONOMIC IDENTITIES - SOUTH-EAST EUROPE AND "EUROPE"

The paper is an essay on *economic identity*. It is not based on any particular theoretical model. The approach is deliberately eclectic, resting on different points of view and different goals. The paper draws extensively from archival and factual evidence concerning the Bulgarian economic history. Special interest is devoted to some characteristic features of economic research in the country, considered as an insightful aspect of a specific economic mentality. The center of gravity is biased towards the macroeconomic side of the problem. A purely technocratic approach is, however, avoided by trying to explore the broader, cultural determinants of economic policy and behavior. In this particular point the discussions in the NEXUS community have been extremely enriching. The text is a first-round "processing" of some of the relevant ideas expressed during our discussions.[*] The "formality" of the paper is not even – some of its parts could be considered as statements or "speculative reasoning" that prepare avenues for further research.

EXPLORING *DIFFERENTIA SPECIFICA*

IDENTIFYING THE REFERENCE FRAME

Identity is, by definition, a *differentia specifica.* It is therefore a common sense observation that any assertion on identity needs a reference frame.

Quite different frames have been explicitly or implicitly used to identify economic identity features. Probably the most traditional one is the simple geographical split along two different dividing lines – the neighbors and the "core Europe".

Identity ***vis-à-vis*** the region has been a permanent source of rivalry and nationalism. Historically, the economic competition among SEE countries has adopted a variety of forms. It started at the eve of the 20c. with simple trade rivalries, to develop further into a race to attract foreign banking and foreign direct investment. The engine of this process has often been military spending that could itself be considered as a specific "investment" in national sovereignty. The "identity outcomes" of those efforts should be clearly placed in the framework of the dominant modernization models: the ultimate goal of each country was to be identified as the leading "modern" power of the region.

Not very much, in substance, has changed since. Countries are currently still struggling to be recognized as regional leaders. They basically refer to simple quantitative indicators measuring their economic weight. But, beyond this quite tangible approach SEE countries are striving to institutionalize themselves as sub-centers. Peripheriality invents "sub-centers" from whatever. The multiplication of imaginary local leadership is a common way to affirm a surrogate economic identity. Examples abound, including such heterogeneous issues as transportation, energy, finance, etc. Only rare intents in this competition succeed to develop authentic centers of gravity that add recognizable identity features to the country's profile

[*] Some of the quotations from the NEXUS Project members refer to their interventions at the seminars. They are quoted as "NEXUS Discussion".

The regional perspective should not dissimulate the ultimate “reference alien” for SEE. It is “Europe” with all the vagueness that this label implies. In purely economic terms “Europe” has always been a metonymy that replaces heterogeneous notions. Being tautological, it is the (unreachable) ideal of the europeanized local elite. Inversely, for the nationalistic economic xenophobia “Europe” is the site of intrigues and the source of fears. In the early 20 c., as well as in the current accession path, it is the competitor, the power that devastates the local economy.

From “Europe”’s point of view “the alien” is South Eastern Europe (SEE) - not only in cultural, but also in economic terms. Bulgaria, for instance, has been the “economic antagonist” of “Europe” in several occasions. Before being the easily identifiable communist enemy it was an economically “assailed” country during the Inter-War period. This position reflected the very sensitive public issues of the war reparations and of the unsettled problems with the private bondholders of Bulgarian debt. Large segments of the public opinion in the West identified Bulgaria as a country in breach on important liabilities towards particulars and/or the State.

The economic identity’s reference frame is not rigid. There are multiple, changing and moving identity frames.

Even a very superficial review illustrates the point. In the early 20 c. the favorite reference was the region. During the second half of the century communism rearranged the frame - a global view became more relevant as the belonging of a country to one or the other of the two blocks was the main economic identifier. In a late-20 c. perspective the region acquires importance again. Greece, for instance, emerges (rightly or wrongly) as a standard (and a threshold) of a possible “local modernity”.

Quite different reference frames could be designed. One of them locates economic identities along the South-North European axis. It will be increasingly relevant in the future enlarged Union. Another related example could be the “membership” in the first, or in the second wave of EU enlargement. A variety of additional taxonomies could be invented. Let think about the Currency boards. There is no doubt that this peculiar monetary device identifies essential economic features of the concerned countries. The Currency board arrangement (CBA) is an unmistakable identification marker - a rare monetary regime implemented in half a dozen of countries. Such a group gathers as close “neighbors” geographically so distant cases as Bulgaria, Argentina and Estonia. To generalize this example, many economies could be considered as model-generating or (alternatively) model-testing.

The point is that the perception of a county’s economic identity changes substantially together with the reference frame. Thus the concept is inherently fuzzy.

IDENTIFYING ECONOMIC CULTURE

It is widely accepted that, whatever the reference frame, the core identity concept to be framed is *economic culture*.

The concept rises a key methodological question in terms of mainstream economics. It is legitimate, indeed, to ask whether *economic culture* is not a proxy for market bias. A positive answer means that “cultural” differences could be reduced to different degrees (configurations) of market distortions in standard economic variables or behavioral rules.

Economic culture is, however, traditionally seen as an interdisciplinary field located at the interface of economics, sociology and other behavioral sciences. The appropriate concepts and instruments to deal with pertain therefore to a diversity of scientific domains. A core common notion seem to be that of *economic values*

Vast research work has been devoted to economic values. In the NEXUS network, in particular, the results of Tanya Chavdarova [Chavdarova, 2002] have proved once more the relevance of the notion in the Bulgarian context. I will briefly introduce a tentative (non exhaustive) list of values that have played a crucial role in the historical shaping of Bulgaria's economic culture. They are in no way unique, but rather a shared inheritance of the SEE countries.

There is a set of *microeconomic* variables Among them I would stress the importance of the following dichotomies: risk aversion/acceptability; trust/non-credibility; formality/informality; long/short time horizon. Historical evidence from Bulgaria points out a clear departure from the conventional pattern of rational economic behavior. [Бочев, 1928, 1931; Аврамов, 2001]. Risks are typically taken but irresponsibly. The trust in contracts is low as they are systematically not enforced. Informality is strong with the corresponding low credibility and robustness of institutions. The prevailing time horizon of business activity is short.

All these features are related to corresponding market "failures". The high risk propensity, for instance, is coupled with the lack of adequate financial instruments to reward or penalize risks. The contract enforcement problem is the mirror image of institutional failures. Short-term bias is a symptom of financial instability, of low institutional credibility, and of insufficient savings. The focal points of those individual/institutional behavioral models are credit and governance. Today, as in the past, the particularities of the financial sector and of corporate governance are among the most sensitive reflections of economic culture's typology. The instruments to capture them are different. While the current typology is scanned with econometrics, microeconomic research, sociological and anthropological tools, the privileged gate to past behavior are archives.

The *macroeconomic* dimension of economic values is more controversial. At first glance it seems questionable if macroeconomics could be used as a discriminating filter of economic identity. Stabilization policy has had almost universal principles during the last century. Independence of the Issuing bank and prudent fiscal policy have been accepted in principle (not in practice) as unmovable dogmas since the Bank of England's Act of 1844. They were incorporated in such doctrinal "codices" as, say, the "Brussels doctrine" (1921), or the "Washington consensus".

Upon closer look, the macroeconomic reality becomes more nuanced. Some markers appear. The sabilization loans of the 1920s could be cited as example. (Their scheme was applied to a select small group of countries.) The already mentioned CBA case is similar. An experimental flavor was present in both cases and Bulgaria provoked a genuine (theoretical) interest. Macroeconomic specifics could be found in other features as well, such as a peculiar inflation or debt history.

Beyond the traditional micro/macro area the basic divide in economic culture (although trivial) is along the *individualistic/collectivist dichotomy*. It boils down to differing cultural attitudes vis-a-vis capitalism that have tangible economic dimensions.

As Stoyan Bochev coined it as early as 1931 "capitalism is unsympathetic to Bulgarians. If capitalism in the other countries, at least in its beginnings was considered as a source of social welfare and had the energetic public and state support, [in Bulgaria] it was considered as an artificial *addendum* to the economic structure of the country". [Бочев. 1931/1998. p. 102] In this lapidary and penetrating statement St. Bochev touched to the very cultural roots of Bulgarian economic mentality, and of the national economic development's philosophy. It should be observed that a similar formula – to "bypass" capitalism through collective ownership and state paternalism – is attributed to Serbian radicalism. [Mishkova, NEXUS Discussion].

The consequence of this attitude is that "alternative", "soft" or "third" ways exert a permanent appeal and are a matter of constant debate. "We want to skip … the capitalistic stage of economic development, to obtain the fruits of the bourgeois and capitalist regime, but without the capitalism itself, without the capitalistic organization of enterprises". How? A particular form – the cooperatives - has always had considerable influence in Bulgaria. "While everywhere else cooperatives are considered as capitalism's correctives [in Bulgaria] they are seen as antipodes, as ways out, as deniers of the capitalistic stage of economic development". [Бочев. 1928. p. 253]

Cooperatives developed as a parallel, "alternative" world to capitalism. They forged a powerful everyday and institutional subculture. Their dense network operated according to the rules of "soft" credit, their structures were repeatedly bailed-out, their banks extended in broad scale substandard loans and the weak cooperative units became "schools" for bad governance. The strength of cooperativism had also important side ideological effects. It injected deeply into the society collectivist values and even molded everyday behavioral patterns that eventually flourished during the communist regime. The attractiveness of cooperatives is easy to understand in an economic environment characterized by poverty and financial primitivism. They provided limited, but accessible services at subsidized prices. At the same time they heavily distorted the capital and financial flows in the country. The Bulgarian cooperatives' success story is a clear example how poverty (and legitimate discontent) is digested through egalitarian, corporativist, populist and even autocratic (totalitarian) ideologies.

Another important effect of the predominantly collectivist public mood was the traditionally marginal place of liberal (conservative) "corner" economic ideology in Bulgaria. The weakness of liberalism partially reflected its association with the hardship of economic stabilization. Liberal economic reforms have (almost by definition) been preached as medicine for financial distress. Thus – wrongly but unavoidably - a certain philosophy was associated in public eyes' with unpopular and painful measures.

In other countries liberalism has suffered from different blows. In Turkey liberals were discredited, for instance, as anglophile and francophile "corrupt" compradors at the end of 19c. [Halil Berktay, NEXUS Discussion]. Anti-liberal and anti-individualistic mood seems to have been strong in Romania as well, where it was promoted by the influential Eminescu's national characterology. [Trencsenyi 2002, p. 9].

As Diana Mishkova points out, liberalism was an alien, imported ideology in SEE. It not only failed as a political project, but also produced a strange ideological mix by promoting state paternalism [Мишкова 2001, p. 315, 322] Thus, rejection of individualistic economic rationality was the underlying philosophy of both liberal and anti-liberal attitudes.

In turn, *etatisme* and collectivist ratuinality developed as a (nearly) consensual ideology. The appeal of the State is by no means a Bulgarian peculiarity. It is a banal common feature in all SEE countries. Extreme etatisme has been the brand of the Turkish nationalistic ideology. As H. Berktay has observed, glorification of the state power was the driving engine of modernization in this country. [Halil Berktay, NEXUS Discussion] Up to the shock of the recent financial turmoil it was still unquestionable and omnipresent in the formidable machine of the Turkish state-infiltrated economy. Somewhat similar path has been followed by the Modern Greek State since 1860. [Kostis, 2002].

Despite the collectivist stance, it should be observed that a kind of pseudo-individualism is widespread as everyday personal economic "ideology". While opposing (verbally) the State, individuals never refuse to siphon out public resources or to transfer to government risks and responsibilities. Bulgarians are individualist when it comes out to appropriate gains or collective wealth, but they are fierce collectivists when the issue is distribution of lossess.

Roots of this ideological and intellectual landscape could be traced in the specific and unclear Bulgarian social fabric. Entire social strata were missing. Middle class and liberal professions were extremely weak - the State has been systematically stronger than the citizen. Thus the national bourgeoisie (as well as "intellectuals") developed a close, opportunistic, dependence from the State. The office-seekers, to be explored by Damir Jelic [Jelic, 2002] are one of the by-products of this phenomenon. Another one is the never-ending pressure for special economic privileges. The State accommodates those pressures and a "circular" dependence is established. The economic actors and the public power are no longer opponents. They build a network of soft mutual dependence.

Dominant values produce their own myths. Following Halil Berktay's pertinent observation [Halil Berktay, NEXUS Discussion] a national mythology needs a "Golden age", a demonology/pantheon and a set of dogmas. Bulgarian economic history has produced the three ingredients. The *"Golden age"* has systematically been the glorified communal and/or patriarchal past. In the early 20 c. it was the pre-Independence closed economy. In the current transition – for a nostalgic public - it is the communist period. Popular imagery has built a ***demonology*** where the capitalist values are penalized and the dominant anti-heroes are "capitalists", "creditors", "shareholders", and "speculators". The "heroes" and the rewarded values are those of a risk-free, passive, non-innovative, egalitarian economic world. The social cleavages of the current transition society are re-affirming this hierarchy of values. Finally, the ***dogmas*** (and their irrational symbols) are the recurring patterns in economic policy, in institution building and in economic development issues. They reproduce pervasive bias towards ***etatiste*** solutions. It could even be argued that communism developed (***in extremis)*** values and modernity ideals that were rooted in the dominant economic ideology of the 1930s.

Of course, the liberal/etatiste controversy should not be displaced from its historical context. During the Inter-War period there were simply no clear-cut liberal options. It is an easy temptation to interpolate ***ex-post*** the current liberal mood. But even in a favorable ideological background, Bulgarian (SEE) etatisme ws treated from outside as an aberration. Nuances mattered, and this is particularly well documented in such ideologically stamped documents as the League of Nations' assessments of the Bulgarian economy.

Behind the intellectual aspect of the controversy are its economic aftermaths. Etatisme was a natural option in a capital-poor economy where a "reservoir" was needed to start the primitive infrastructure-building from scratch. Bulgaria is permanently living in a capital shortage. What changes is the style of "consuming" the State. While in the early-modern period it was the main centrifuge that re-channels capital flows, during the current transition its importance is enhanced as the main target of asset striping. The ***etatiste*** exit has been the recurring panacea from every major economic crisis in the country.

The macroeconomic incidence of this model was a debt spiral and a pervasive dependence from external borrowing that shaped essential features of SEE countries' economic identity.

THE METRICS – CLUSTERING AND TAXONOMY

Is economic culture quantifiable?

Sociologists would say "yes". They have developed instruments based on surveys and elaborated theoretical assumptions. The accumulated empirical evidence is rich and controversial. [Chavdarova 2002; Kabakchieva, 2001, Kochanowicz and Marody 2002]. Anthropologists have also had important contributions, in particular in the Nexus framework. [Iliev 2001; Kalyonski 2002].

Economics is an ambiguous contributor. The traditional *direct* exercise rest on economic indicators. Numerous countries' taxonomies have been regularly constructed with different set of indicators. Those efforts gained momentum with the progress in data storage and processing. They were typically performed by International financial institutions (IFI) with large-scale databases (WB, IMF, EBRD, EC, UN entities…), but also by a growing number of private research centers. Data used has often a certain "cultural" connotation. The clusters produced, however, are only of marginal "identity relevance". Their profile is barely readable as an outline of different "cultural types".

The possibilities and the limitations of this approach appear clearly during the current transition, and particularly in the EU accession process. In order to discriminate distinct groups of countries IFI and the EC felt obliged to construct numerous scales of institutional (maturity) differences among transition economies. To complement those quantitative exercises the Commission developed a specific new style of *narrative taxonomy*. The most prominent specimens are the Annual EC Reports on each candidate country.

The reports are *de facto* economic identity exercises. Their explicit goal is to capture "vertical" (in time) and horizontal (among countries) differences. In so doing the reports display marvels of verbal nuances. The created peculiar slang permits the clustering of the candidate countries in their path to the Union. The notions of "functioning market economy" and "capacity to withstand competitive pressure" provide the basic axes. They are, in turn, subdivided into a number of "sub-coordinates". The combinatorics of those concepts is coupled with detailed assessments by sectors of the economic activity. The final outcome permits to arrange the counties in different groups and to evaluate their "maturity" in terms of the European *acquis*.

The real results are far from convincing. Despite their bureaucratic exhaustiveness, the EC documents have to apply proxies and artificial constructs to an economic realm that is intrinsically not so different as the authors would like.[*] Notwithstanding the scrupulous review, the final taxonomy is based on metaphors. The "capacity to withstand competitive pressure" for instance, could be easily identified as a substitute for the country's level of investment, of wealth and of income per capita. Transparent proxies veil geopolitical considerations, while exceptions are granted on political grounds.

The reports thereafter are not successful in identifying real differences in economic culture among candidate countries. A basic problem arises also from the heterogeneous content of the "westerness" embedded in the *acquis*. Socioeconomic models within the EU are diverse. There is definitely no consensual idea on the core features of the market (capitalism *per se*) nor uniform behavioral standards across Europe.

[*] A study on Polish economic culture, for instance, outlines typological features that are very close to those commonly accepted to pertain to SEE-type economic cultures. [Kochanowicz and Marody 2002].

WHAT MATTERS IN SHAPING ECONOMIC IDENTITY – THE HISTORICAL PERSPECTIVE

The section is dedicated to the making of economic identity considered as a blend of local tradition and strong external influences. The focus is on the conflictive impact of the second element. The approach is historical and is based on the pre-WWII Bulgarian economy.

FUNDAMENTALS AND COGNITIVE PERSPECTIVE

It is a truism – but a neglected one – that *fundamentals* matter in shaping economic identity. *Smallness* determines the horizon of the country. It could not be decisive for its level of economic development and wealth, but it is crucial for its place of the country in the world economy. The g*eopolitical situation* is another factor that alternatively becomes an asset or a liability. In any case it shapes a certain type of behavior in the international scene. *Capital/saving supply* is probably the main explanatory variable. A structural capital shortage molds all the financial flows in the economy. The saving-deficient economy is forced to rely on foreign capitals and to organize accordingly its own financial system. The results are, among others, stronger conditionality, greater vulnerability to external shocks, frequent capital flights and unstable behavior of the economic agents. Those are the basic characteristics of small open economies. *Backwardness* is another major feature. Catching-up shapes the economic identity profile through the strong appeal and permeability to "imported" models. Finally, economic identity is shaped by purely historical particularities. *Institutional history* matters. Inherited *sectoral profiles* (agriculture/industry/services) matter. *Traumas* from major economic catastrophes/booms (hyperinflation; depressions; war reparations) are "genetically" translated into a certain type of behavior. (The post-war inflation aversion in Germany, for example, is largely attributed to memories of the 1923 hyperinflation).

Economic identity is not a free game. The stamp of fundamentals determines the *standardized* features. The rest is outlined by history. As *differentia specifica* economic identity (culture) ***IS*** history.

A second remark concerns the *cognitive* aspect. Economic (as any other) identity is also a *perception* issue. It is a cross-product of outside views (M. Todorova) and self-perception. The multiplicity of perception perspectives, in turn, allows for multiple identities. There is a place – as A. Kiossev observes - for different cognitive perspectives and alternative mapping. [Kiossev, 2002].

Economic history provides numerous self-identification codes. They can be found in very different relicts of economic mentality - institutional archives, personal documents, petitions, parliamentary debates, research papers… Key traits of the Bulgarian case are probably not unique in SEE. *Damnification and self-stigmatization* is one of them. The Dark Intimacy of A. Kiossev [Kiossev, 2002] has its counterparts in economic mentality. *Martyrology and global conspirative schemes* are common. They are – still today - a traditional point of view in peripheral countries on the world economy. The *inferiority complex* has always been an explanation, but also an argument in the contact with the "outside world". This mood has had opposite upshots. The "passive" one leads to conformism, to marginality “by birth”.[*] The “aggressive” version has been the support of economic nationalism.

The most significant economic identity’s generalization is the deep “non-European” self-perception. It is an old one, with numerous literary, artistic, or rhetoric expressions. The issue is even more relevant for the current SEE position.

This stance is easily captured by sociological surveys. As a stable mental construct it has a colloquial presence also. The obsession with European labeling is symptomatic. In early 20c it took naïve forms. Nowadays one of its phraseological stereotypes is the “It is like this in Europe (the World)” cliché. Overwhelmingly, the statement is a non-informed one. It traduces, however, strive for legitimization of the economic behavior. Very much like during the communist period, a symbolic ideological code (message) is felt necessary for every single trivial economic act.

The outside view is essential for economic identity’s self-perception in marginal countries. Outside voice is hypertrophied and acquires metaphysical dimensions. (Without regard to its own merit or content). Hypersensitivity to foreign opinions develops.

The outside perspective is, in fact, very heterogeneous. It could be colonial, paternalist, technocratic, respectful, aggressive or intrusive [IMF, IFI. EU]. Like other countries Bulgaria has a twin (good/bad) image abroad. In strictly economic terms the preponderance of them depends from pragmatic reasons - it is benevolent when the country fulfills its obligations to the creditors and inversely.

Of course, influence is never one-way. An unambiguous circular *perception chain* exists: outside views reflect “autonomous” self-assessments and vice-versa. The corruption discourse of today is a good example. Easy corruption rhetoric inside nurtures corruption clichés abroad and returns back home. The IFI reports have similar effect when presented to the country as official positions after being manufactured in-house. This relationship, however, is not symmetric. As a rule it is the local SEE elite that reproduces and vehicles Western cliches, images and stereotypes.

THE INTERPLAY OF INFLUENCES - THE HARD WAY (ECONOMIC CONDITIONALITY)

During episodes of financial distress small peripheral economies face *economic conditionality*. This is the set of rules imposed by those creditors that provide the capital inflow needed to overcome a financial crisis in the host country. Countries falling into a debt trap cycle are those that provide the bulk of evidence.

Bulgaria never managed to fully escape foreign monitoring. For a short while, thanks to a coincidence of favorable economic and political factors, the country approached a “free” status with the loan of 1909 extended by Austrian banks. The contract did not foresee any specific pledge, or the presence of a special comptroller. It rapidly became clear, however, that this status was not sustainable and, due to different reasons, Bulgaria was forced to approach German banks in 1914 under extremely hard conditions. Afterwards, Government’s access to capital markets continued to be a permanent problem. For decades this access was granted through official intermediaries and at the price of direct conditionality. The last episode was the financial isolation of the country following

[*] As one of the most brilliant Bulgarian Finance Ministers (Vl. Mollov) put it in 1928: “Let be humble. The meridian of our prestige (authority) extends from Svilengrad to Dragoman [two opposite border points of the country]. We are not supposed to advise others how to deal with European and world monetary issues”. He was speaking in the Parliament and had in mind the entire Bulgarian political elite.

the 1990 moratorium. Bulgaria had to rely for yeas on IFI resources and it is only after the debt problem was settled in 1994 and the economy stabilized in 1997 that the Government regained the potential to float bonds

This paper summarizes essential features of the "conditionality culture", drawn from the more than century-long Bulgarian experience with externally monitored economic policies. The focus is on the pre-WWII era as this period lays down many of the basic principles that re-emerged with the IFI-based conditionality of the post-communist period. Archival evidence has been collected from Bulgarian sources, League of Nations (LN) documents, French government and private banks' archives, and the archives of the Inter-Allied Reparations Commission in Sofia (IARC) kept at the *Archives nationales* in Paris.

Three semantic levels are present in the contacts between a debtor country and its creditors. "Commercial law" governing the relations between international creditors and borrowers are the less exciting aspect. The asymmetric status of an advanced metropolis and a backward dependent country is explicit. Finally, a step further, creditors' conditionality embeds the "mentality gap" i.e. the differences between behavioral standards in a mature market and in a transition (whatever it means) economy. The dramatic history of this relationship emerges as a recurring series of ***cultural shocks*** that have shaped national economic identity in debtors' countries.

The formula "money against reforms" is the basic bargaining principle of economic conditionality. Hence, financial dependence is the catalyst of economic and even societal modernization for a peripheral country. Debt history is the core of modernization history. Foreign advisers and institutions are its key agents.

K.Kostis' is right concluding that "Balkan countries sooner or later proved themselves incapable of reorganizing in accordance with the demands of international economy and politics. In the end they had to submit to international economic control. Only through such control could the institutional framework for raising and yielding return on borrowed capital be organized and a rudimentary framework for the rational management of public funds be put together. To put it briefly, the dynamic of change in the state apparatus does not seem to constitute an element inhering in the state's nature. It emerges from external incentives and adapts to them." [Kostis 2002, p. 64]

Even taking into account the specific historical circumstances, Bulgaria could be treated as a representative case for small, open transition economies of SEE. The overview that follows aims to portray (on Bulgarian factology) the multifaceted world of conditionality. It is an overcrowded one, where actors are not only foreign advisers, but also their Bulgarian counterparts and (behind the most visible figures) a Byzantine background of diplomats, politicians, civil servants and bankers. From an institutional point of view the reality has gradually become more complex. Instruments and tools for pressure have evolved, together with the sophistication of the markets and changing political context. Conditionality culture has developed its particular language and symbols subject to a subtle historical evolution. Conditionality practice has reflected the change of dominant theoretical paradigms, but also produced its own doctrines. Foreign financial dependence interfered in numerous ways with the media, public opinion and political life. All those elements deserve careful and comprehensive analysis in a long backward perspective.[*]

[*] Case reports are inserted in *italic*.

Typology

Bulgaria has experienced, in broad terms, five types of economic conditionality. The constellation of its elements, as well as the role of international financial advising, has changed correspondingly. Although the proposed typological overview follows a chronological order many elements have had an intertemporal presence.

The first foreign loan was extended to Bulgaria in 1888, followed by new loans in 1889, 1892 and 1896. Some minor short-term advances were also obtained until the end of the century [W. Wynne, 1951]. All those arrangements did not involve any specific conditionality clauses related to macroeconomic policy monitoring or legal matters. Instead, they were secured through conventional covenants and collateral pledged.

A new era begun with the underwriting of Bulgarian bonds by "Banque de Paris et des Pays-Bas" (Paribas)-lead consortiums in 1902, 1904 and 1907. They marked Bulgaria's lasting integration into the "French loans system" whose main features were the pledging of key tax revenues as collateral and the presence in the borrowing country of a representative of the bondholders. This personality rapidly became a pivotal figure in the local establishment and in the making of local economic policy. Instruments at his disposal were quite direct, namely the delivery of tobacco banderoles to the Government against repayments of the loans. The representative of the bondholders was in very close contacts with Paribas headquarters and the French Government.

This type of financial dependence could be labeled ***personalized (body) conditionality***. The personal presence was essential in enforcing conditionality terms. It was as if unpersonal markets (quotations, creditworthiness assessment) were not considered credible, trustworthy constraints, and a human presence was needed to manage the control on a daily basis. The system survived almost without modifications, although in a more complicated context, until mid 1930s when it gradually lost its strength.

*A look at the statute of the bondholders' delegate is quite illuminating. [Paribas, 4\Cabet- 1\77, 83]. He was formally the representative of nearly 500000 bondholders (*porteurs*) and was entrusted to secure their interest, as well as the respect of the contracts.*

His real power, however, was rooted in the strength of Paribas and the sanction of the French Government. The bulk of his correspondance was not with bondholders, but with Paribas headquarters. His personal advancement and numerous regalia were directly dependent on the Bank management. The appointment procedure of the delegate was a chef-d'oeuvre *of the French administrative know-how. The candidature was coordinated among the Ministry of Finance and the Quai d'Orsay, before being submitted to Paribas. The French Government could revoke his mandate at any moment without compensations. The diplomatic formula, agreed upon after long discussions with the Bulgarian side, was that "the delegate is appointed by Paribas and notified to the Bulgarian Government by the French Legation in Sofia". The legal ground for such a treatment was the fact that the French Government had authorized the loan's quotation at the Paris stock exchange under precise clauses and was correspondingly bound to assure their strict observation. As a whole, the "hybrid" institutional status of the delegate was that of a semi-civil servant, semi-bank employee recruited among the French administrative* nomenklatura.

The delegate had strong discretionary powers, including that of de facto *vetoing some monetary and fiscal policies' decisions. The instructions received by the delegate from Paribas were impressive. They reflected the loan's contract terms and instrumentalized the real economic power of this position. He was entrusted to follow the fiscal legislation (tax collection, tax laws, banderoles, fraud) and to report to the Bank. It* *was his duty to check for any deviations, or implementation deficiencies in the field. While his oversight over fiscal matters was more general, the rights of the delegate concerning the taxes pledged as collateral were exclusive. He could stop any amendment of the corresponding legislation.*

The agreement of the bondholders' representative was required for any amendment in the laws regulating currency issuing by the BNB. The Bank was not allowed to coin silver pieces or to realize fiduciary emissions (except in case of war) without the explicit permission of the delegate. The underlying idea was that currency devaluation (in metallic standard terms) and the eventual dilution of the collateral's value was the utmost danger for creditors. The representative was requested to inform Paribas, the Bulgarian Government, or (in the absence of adequate reaction) the French Legation about any measures that, in his view, undermine the exchange rate (generate aggio).

In order to execute all those instructions the delegate needed a broad information network. Personal contacts with the local establishment shaped his insider's view. Beside, his position (sometimes by abusing) provided him unique access to data. The delegate's archives reveal a dense array of "authentic" data sources that overcome the official bias and manipulations of the Bulgarian National Bank (BNB) and Government balances. His office grew as a first-order macroeconomic observatory, which filtered the available economic information aiming to assess the true creditworthiness of the country. By concentrating information the delegate strengthened his position as one of the main poles of economic power in the local society.

Body conditionality was a hard regime, but not the ultimate form of foreign monitoring. The utmost stringency was achieved with the Dette Publique Ottomane – a regime where national sovereignty on debt and tax matters was completely surrendered. The model was applied in the Ottoman Empire, but also in Egypt and Greece. The possibility to implement this standard of ***extreme conditionality*** to Bulgaria has been raised as an intimidation on various occasions (in 1899, 1904 and 1907) but the threat was avoided.

A modified form – as in other defeated countries – was finally put in place after the end of WWI. Its central feature was the presence of the Inter-Allied Reparations Commission (IARC), established in Sofia in 1921 according to the 1919 Treaty of Neuilly. The role of the Commission has been crucial in imposing (against a fierce opposition) rules of fiscal and monetary orthodoxy. It introduced several archetypes that could be detected in subsequent forms of conditionality. The Commission implemented, in particular, the principle of a consistent monitoring of the overall macroeconomic policy and that of explicit requirement for certain institutional reforms. The IARC's prerogatives were the first instance in Bulgarian history of an explicit transfer of economic authority outside the country. It was followed by the very different cases of the communist regime and of the currency board in the late 1990s.

The conflicts between the Commission and the Bulgarian authorities (as reflected in the French Archives Nationales /AAJ7/1-37/ and in Bulgarian archives) map the core agenda of the country's external conditionality: conflicts over budget expenditures and the tax burden, controversies about the monetary policy stance, discussions on the scope of the government intervention in the economy, confrontations on foreign debt maturities and arrears…

For a while the French Occupation Authorities considered in 1919 a take over of the Bulgarian Debt Directorate by the Allies. It was clearly understood (on the basis of the Ottoman Empire's experience) that the control over the debt is the neuralgic point for the *control over the entire economy. Later on the idea was abandoned and the institutional presence was concentrated in the IARC.*

IARC control was explicit and direct. It covered every relevant economic matter – budget procedure, monetary policy, legislation… No major economic policy decision (incl. the budget) was allowed before the consent of the Commission. IARC obtained in particular the first lien over all Bulgarian assets and resources what de facto *ruled out the possibility to contract foreign loans. Although not in so redundant terms, this kind of* ex ante *conditionality on foreign debt has always been a familiar practice. The first loan contracts stipulated special provisions on the proceeds and feasibility of future credits to Bulgaria. Thresholds on new debt have been routinely included in IMF supported programs.*

In the Bulgarian social and political context, however, the emanation of the IARC influence was much broader. This institution became the stronghold of a certain "liberalism" amidst a markedly populist and etatiste *environment. IARC was often the only vehicle of some economic rationality in an irrational economic debate. For the local business elite itself the IARC became one of the rare institutions that defends market principles in a fierce anti-capitalistic background. In some instances IARC was simply "The" authority confronting arbitrary decisions of the Bulgarian Government against prominent representatives of the national* bourgeoisie. *The Commission was particularly concerned with the economic side effects of those decisions, namely capital flights and the destabilization of the national currency.*

Many of the main features implemented by the Inter-Allied Reparations Commission were "codified" in the ***League of Nations (more precisely its Financial Committee's) conditionality***, imposed with the two Stabilization loans extended to Bulgaria in 1926 and 1928. This type coined an impersonal, bureaucratized style that had to re-emerge at the end of the century. The involvement of the LN reinforced the strong political element in the exerted conditionality as monitoring was subject to a delicate balance between spheres of influence of the leading countries. The LN instituted a multilateral forum for the discussion of global debt problems and of particular cases. Although the League was not very successful in shaping broad international solutions, it became the privileged instrument of a case by case approach that resulted to be more appropriate for small countries in distress.

A quite modern element in LN conditionality was its role of (quasi) neutral credit risk "agency". The inquiries by the League's Financial Committee (FC) were generally accepted (namely by the bondholders) as a relevant source on the solvency of a debtor country. The League exerted a kind of "informational arbitrage", proper to present IFIs. LN conditionality was considered, as well, as a strong official encouragement for foreign private investors. As a whole this was the archetype of the present day model for countries with low creditworthiness needing the "warranty" of IMF-supported programs. A form of risk sharing emerged where the FC bureaucracy took over from private creditors (in a more effective way) macroeconomic policy enforcement.

The personal influence of the LN Commissioner (the adviser to the National Bank) was still considerable. He was entrusted to manage the stabilization loans proceeds. The Commissioner had a consultative vote at the Administrative and Executive Councils of the Bulgarian National Bank (BNB). His duty was to evaluate the legality of the Banks' management decisions. The adviser had a suspensive veto right – the final decision could be taken only after a formal arbitrage. (A "symmetric", Bulgarian Government Commissioner with suspensive veto was also appointed). No amendment in the BNB legal *status could be effected without the agreement of the adviser. More important for fiscal policy, the adviser had the exclusive right to approve the limited short-term advances by the BNB to the Treasury (Treasury bills issues), allowed by the Stabilization loan agreement.*

In fact the influence of the Commissioner (adviser) went well beyond his formal rights. His nationality and moral suasion were important. Rene Charron (Commissioner from 1926 to 1932) for example remained a recognized authority on Bulgarian economic affairs long after he resigned from his position in 1931. His mediation was been discretely sought on various occasions during dramatic crises in the relations with the FC.

It is with LN monitoring that the formula “structural reforms against debt restructuring” was shaped. The key word of “reforms”, however, should not be accepted at face value. The term has always been (in the 1920s as today) a metaphor, a bargaining instrument and a veil for political influences. “Reforms” are a vague and elusive concept and Bulgarian (as other debtor countries’) government had proved their expertise to circumvent this “conceptual” conditionality. It is not by chance that many creditors considered the formula as unfair and pre-war loans’ bondholders, in particular, strongly preferred tangible pledges. Any intent to place on the same footing compliance with LN macroeconomic conditionality and bondholders “real” losses was treated as a departure from the fundamental principle of creditors’ equal treatment.

The outbreak of WWII marked a turning point in foreign conditionality. The dabacle of the LN permitted the emancipation from the FC’s control. In May 1941 the LN Commissioner and the adviser to the BNB left Bulgaria, opening a period of apparent institutional “vacuum”. In fact, after April 1940 foreign debt payments were intermittent and subject to occasional arrangements. Overall conditionality took a clear wartime look and was undisputedly dominated by Germany. After the War a “grey” period followed until 1949 and ended with the definitive default on outstanding Paribas’debt, adorned by an insignificant last installment made by the new regime.

The rapid postwar sovietization of the country imposed a new, ***communist type, foreign conditionality***. Its features have not been systematically explored as only recently archival evidence (namely of BNB) became accessible. In very broad terms this foreign dependence was characterized by a strict control from the USSR of every economic policy decision. “Shadow” institutions and an army of “advisers” exerted overview and coordination up to insignificant details. Nevertheless, this type of conditionality allowed some space for a bargaining process between the metropolis ant its satelites. It was a primitive and direct bargain, quite adequate to the realities of demonetized, semi-natural economies.

What followed the collapse of the communist system in the early 1990s was the easily recognizable orthodox ***IMF-based conditionality***. Its “ancestor” is the LN conditionality. The inter-war period was the laboratory of the post-WWII practice. More bureaucratized and impersonal than its LN prototype, the IMF paradigm shows two consistent differences – the institution manipulates its own resources; there is a more clear operational and conceptual framework. An important additional feature is the division of tasks with other IFI designed to monitor different segments of the ongoing structural reforms.

The brief chronological review outlines certain trends in conditionality typology.

A drift among different national cultures could be observed. The French system emphasized direct and personal control. In peaceful times the Germans have had a more disseminated, less visible, but highly effective presence in key positions in Bulgaria. (During war episodes, as allies, their hard control was much like the soviet type). The Anglo-Saxons have been more influential trough the imposition of a conceptual, doctrinal and institutional framework. The general trend has been from a personal to a more institutionalized style.

Other vectors in conditionality culture could also be identified. Among them the evolution of conditionality-subject areas from narrow legal topics to the national legislation, from fiscal to monetary and issue matters and, finally, to a monitoring of the overall macroeconomic policy stance. The most significant move comes with the all embracing EU accession process. The scale of constraints has changed as well. Although its development has been with ups and downs, the insertion of the country in the world economy was accompanied by a narrowing of the scope of manoeuvre. There was a positive correlation between the debt volume and conditionality's stringency. Beyond a critical point in debt (reached by Bulgaria at the turn of the 20 c,) conditionality unavoidably becomes harder. This trend was only partly triggered by the more efficient design of monitoring. A substantial role in hardening constraints was played by the markets.

Enforcement

Conditionality is not (only) an advising exercise. It is essentially a scheme to secure creditors' assets trough a set of specific enforcement tools.

The common commercial practice is the pledging of a specific collateral, subject itself to a long evolution. Whatever the concrete choice, the basic underlying creditors' principle has always been to identify the "leading" collateral, i.e. the one related to the engine of growth/stability of the Bulgarian economy.

It was the case with the assets of the newly build infrastructure (railways or harbors) for the first (late XIX century) loans. The revenues and assets of the vast network of Agricultural banks were pledged in 1896. Tax revenues followed when the capacity of the State became sufficient to raise important amounts of them. The core of the tax structure was pledged, with the most lucrative taxes (tobacco excises or customs duties) provided as collateral. The climax of this system was attained with the Treaty of Neuilly where the entire national wealth was *de facto* pledged.

Technically speaking, conditionality has always been "materialized in some form of direct control on financial assets of the debtor. A special reserve account at the disposal of the representative of the creditors was associated with the "French loans" as well as with the Stabilization loans of the 1920s. It was current practice the creditor bank to retain part of the loan proceeds as a security. Actual market practice also includes, as in the eve of the century, such techniques. Today Brady bonds are partially secured with a pledge of US securities held in a depositary bank, while the Bulgarian currency board arrangement in place since 1997 is cushioned by an important IMF-monitored fiscal surplus covering roughly one year foreign debt maturities.

Creditors have certainly utilized market-based instruments, as well, to secure their risks. Premiums charged to Bulgarian loans have been substantial in absolute terms during the century, reflecting in particular the specific "geopolitical tax" related to the region's intrinsic instability. Their dynamics, however, accurately reflected the changing profile of the country risk [M. Flandreau, 2000]**,** namely by capturing (through declining interest rates for new loans) the growing creditworthiness of the country in 1902-1912. Fluctuations in the quotations of Bulgarian loans have also been, in broad terms, a good market indicator. Nothing has changed in substance. Markets still impose severe risk premiums and quotation of Brady bonds are a sensitive issue for Bulgaria as for other emerging markets.

During the underwriting of foreign securities' mania in the second half of the 1920s markets charged relatively safe risk premium that compensated to a great extent creditors' losses from the ensuing defaults. Beside, in 1935 the interests on over 2/3 of the bonds issued in the USA were regularly repaid. [Mintz 1951, p.2](Sessions 1992]

The fact that after WWI Bulgaria had obtained access to the capital market with a substantial delay (only in 1926) meant that the country has to face higher interest rates. The quality of the bonds issued had already deteriorated substantially. [Mintz 1951, p.46] Under any standards, the 1926 and the 1928 Stabilization loans were treated as risky investments. The yields of the Bulgarian bonds issued in the American market exceeded by 1.44 and 1.66 percentage points the average yields of the bonds issued in the USA. The interest rates on the two loans were 0.82 and 1.88 percentage higher than the relevant average interest levels on the American market. [Handbook… 1930. p.41, 43, 104, 122].

Parallel with the diversification of conventional pledges, security gradually acquired more intangible features. Visible already with the Paribas loans, the trend attained maturity with the clear-cut "macroeconomic policy" conditionality imposed by the Inter-Allied Reparations Commission. Later on this approach was consecrated in the LN and IMF practice.

Let remark that during the communist years the ultimate security accepted by Western creditors was of essentially intangible nature: it was in fact the political stability of the regime and the implicit assurance that Bulgaria would be bailed-out by the USSR in case of distress. Such bail-out effectively happened at the turn of the 1980s but it was not more possible with the next debt crisis of the end of the decade. Even taking into account some biasing political motives, creditors reacted adequately by hardening the terms of roll-over and by limiting access to credit, thus accelerating (with USSR not more available as "debtor of last resort") the Bulgarian moratorium of March 1990.

Summing-up, the long view is deceiving for creditors. Collateral is of intrinsically illusionary and evasive nature: even with all the securities in place, no absolute guarantee is possible. Collateral has been *depreciated*, be it a tangible pledge or an intangible security. Let remain that the inflationary collapse of the gold standard after WWI undermined definitively the "gold clause" embodied in loan contracts. In the Bulgarian case debt servicing never exceeded 1/3 of interests' "gold value". Similarly, the collapse of the communist regime in the end 1980s "depreciated" stability and some predictability – the main intangible assets of the regime in creditors' eyes. Collateral has also been *circumvented*. When a major crisis between pre-war bondholders and Bulgarian Government stroke in June 1932 the Government's simply menaced to assume the printing of banderoles. Finally, creditors have been *deprived* from their collateral. It happened in 1940 when the country suspended foreign debt payments without any possible retaliation from the part of creditors, and again in 1948 with the final settlement with Paribas.

What really mattered was the relative scale of securities. It came finally true that the LN umbrella put post-war loans' bondholders into a more favorable situation. After the 1932 partial Bulgarian defaults (until 1939) they managed to recover roughly 1/3 of the contractual interest while pre-war bondholders had to content themselves with 13-18%.

[W. Wynne, 1951] It was also proven that the relatively better secured loans (the 1926 Loan and the pre-war loans with real pledges) performed better in the default context.

Shaping institutions - "Institutional conditionality"

An essential feature of financial dependence is "institutional conditionality" i.e. the creditor's driven institutional and legal building in debtors' countries. Pillars of the local institutional system have been constructed and reshaped under the pressure of foreign conditionality. Although this pattern often produced inconsistencies between their design and the economic environment (the "form without content" problem) it was accepted as natural by the elite. The model was the core of the modernization philosophy. To quote a 1907 official publication ".if one attempt to form a modern state out of a country which has been devastated for centuries, or if one tried to transform a Turkish province into a country after the pattern of the European States, every step would be strewn with obstacles, and there would be nothing of the former state of things that could be utilised. In such a case, the only thing to be done would be to borrow from other nations the experience which they have accumulated during their efforts, and to transplant it into a desolated land. We may well imagine the effervescence which would follow… and how under such conditions one would proceed with uncertain and faltering steps." [Bulgaria of To-Day 1907, p. XIV] Nothing in this "transplantation model" has changed in substance.

Two focal points of institutional conditionality are considered in this paper: the government's budget (fiscal reforms) and the Central bank. Those were the traditional "places" of cultural clashes with the "outside" world. The conflicts revealed the scope of mentalities' flexibility (from both sides), of values' rigidity and the contours of hybrid cultural forms.

On the fiscal side the control focused on different points. It started (in the early 1900s) with a close and direct monitoring over the tax pledged and the related legislation. Eventually, the Inter-Allied Reparations Commission had a complete discretionary power over the budget procedure and fiscal laws. The LN continued this path by including as a basic conditionality principle the building of a consistent and transparent fiscal system and the realization of deep fiscal reforms. Beside, the League's representative had the right to veto deficit financing through Treasury bills issues beyond a fixed ceiling. The control over monetization of deficit financing turned out as one of the most efficient tools for enforcement of fiscal discipline.

Despite the strict institutional control of the fiscal sector, it rapidly became evident that such a monitoring was inefficient if not coupled with a control over monetary policy: BNB (the issuing bank) was widely utilized as an alternative resource for government spending. Foreign loans' security had to be considered in the monetary policy context. The point was perfectly caught by Georges Bousquet (the first bondholders' delegate in Sofia) as early as 1908. "BNB is *de facto* a department of the Treasury… This critical situation is due… to the easy access of the Government to the Bank's resources trough the loans extended… [The Government] does not provide any warranty for the redemption of its debt, other than a possible deduction in favor of the BNB from the foreign loans. This explains the deeply rooted reluctance of foreign financial institutions to extend not pledged loans to a Government that in a few months can borrow [from the BNB] 50 mlns. without providing to its foreign creditors any preferential treatment with respect to the local ones". [Paribas, 4\Cabet- 1\78]

Government's obligation to consult the bondholders' representative on decisions concerning the issuing policy of the BNB was an important – but not sufficient -

enforcement instrument. The effective closing of the national bank's window for government financing could be achieved only through a broad institutional reform. The idea was in the air, in line with the prevailing late 19 c. doctrinal orthodoxy (if not practice) that favored independent, privately-owned bank of issue. [Flandreau, 2000] No strong political (and social) forces were at work to separate the bank from the state. Instead, vested political interests and the dominant ideological *cliches* in the country inverted the "politically correct" European values. The "virtues" of the Government-dependent BNB were proudly exalted by politicians and professors as one of the outstanding peculiarities of the "successful" Bulgarian economic model that permitted to build the country from scratch.

Plans to privatize the originally state owned BNB were launched in the immediate aftermath of the national Independence. In the following years this highly controversial idea became the core of an intense national debate opposing the adepts/opponents of the privatization and of the foreigners' participation in the BNB capital. The issue has never been settled in favor of a private bank. [Avramov. 1999, 1999a][Бъ лгарска Народна Банка. 1999, 2000]

The first project for a joint stock issuing Bank was formulated by two Russian bankers in late 1879 and endorsed for a while by the Council of Ministers, before being eventually abandoned. Bulgarian politicians made a second attempt in 1883. It was a double failure. Economic from one side, as the required capital was never raised in a savings-deficient country. Political, from the other side, as the Government finally opted for the alternative project in 1885. The enacted Law consecrated two fundamental dogmas in Bulgarian economic life – that the issuing bank should be state owned and that no foreign capitals should be allowed to enter the institution.

Nevertheless, under strong foreign pressure, the institution was deeply transformed in two waves.

The first step was the adoption in June 1922 of a Law fixing explicit and mutually binding ceilings to banknotes emission and to the government debt towards BNB. The Inter-Allied Reparations Commission de facto *imposed the Law to the Bulgarian government. The Law "On the limitation of banknote issue and of the Treasury debt towards BNB" ("1922 Law") provides an excellent example of "indirect institutional conditionality".*

The broad macroeconomic context is well known and quite similar to that of other defeated countries. National currency had lost 97% of its prewar "gold" value and the overall situation was unstable with possible hyper-inflationary developments. Diagnosis was a seemingly straightforward step - there was a wide consensus (shared even by the Bulgarian opinion) that inflation had a fiscal source. The disputable point was whether this was the sole source. In fact, the first conflict with the Bulgarian authorities was precisely on the "theoretical" ground. To put it simply, to accept that there were no other sources of inflation meant that the IARC would be empowered to take a full control over fiscal policy. To accept other sources implied that a degree of freedom could be left for the use of fiscal instruments.

In the struggle for external influence "theory" has become a euphemism for political control. The Bulgarian Government challenged the IARC conceptual interpretation and insisted that an important inflationary component was underestimated, namely the uncertainty surrounding the settlement of the reparation dispute. According to this view, the unknown volume of the forthcoming reparation debt burden nurtured speculative attacks against the Lev and was discounted in the expectations concerning the *exchange rate. As a consequence, it was argued, a purely fiscal approach could not solve the problem, and a fixed ceiling for direct deficit financing by BNB would be inadequate.*

The facts gave partial reason to the Bulgarian point of view. Even after the implementation of the 1922 Law depreciation of the currency continued. The final stabilization came only after the reparation debt problem was officially settled in March 1923 (with a tacit substantial reduction of the Treaty figures), and a complete monopoly of the BNB on foreign exchange transactions was introduced in December 1923.

The focus on the fiscal sources of inflation was, however, by no means erroneous. Accordingly, the IARC had to take a decision on the strategy to follow. Two clear options were available - to force an amendment of the BNB status, or to impose an explicit exogenous control on money supply trough a ceiling for direct (monetized) Government deficit financing. In economic terms both options boiled down to a Currency board-like arrangement.

It is significant that the Commission chose the second option, which was a de facto *redesign (without any legal change) of the BNB institutional status. From one side this choice reflected the strong opposition of the public opinion, regarding the BNB as a kind of untouchable national symbol. From another, the IARC approach embodied a permanent preference of Bulgaria's foreign monitors for direct instruments, instead of institutional reforms. Reform plans have always been suspected as subject to circumvention, and as "second best" compared to a set of overt rules and performance criteria. The conditions for a large scale reshuffling of the BNB status matured only in 1926-1928 when this reform was the bargaining price for the extension of the badly needed Stabilization loans.*

The enactment of the 1922 Law transferred the conflict into two fields – the enforcement mechanisms and the threshold for direct deficit financing. The focus of the debate became foreign control and the degree of flexibility allowed by the arrangement. "Soft" and "hard" options emerged: a well-known dichotomy that had to reappear in every major conditionality episode during the century.

On a more tangible level the controversy concerned the negotiations of the concrete ceiling. As it often happens, at the start both sides launched irrational, fetish figures. They ranged within a wide, 30% interval. The IARC was ready to accept a higher threshold coupled with harder conditionality for its revision. The Bulgarian side insisted for an unconditional higher limit. The main point was, in fact, the officialization of a loophole – the discretion left for fiscal authorities to finance emergency deficits beyond a fixed amount.

It was finally agreed that paper money issued by the BNB could not lead to an excess of banknotes over the sum of the outstanding BNB direct loans to the Treasury (4.7 billion Leva) plus the 12-fold amount of the Bank' s gold/silver reserves. Money supply non-covered by foreign reserves was limited through the ceiling of the Government debt to BNB. Any decision on short-term extraordinary advances of the BNB to the Government was to be approved by the IARC.

A very symptomatic issue in the 1922 Law was the use of information manipulations as a bargaining tool. The Bulgarian Government played this instrument by introducing deliberately vague figures. As in many other cases of conditionality the ensuing conflict provided strong impulse for the development of a more extensive and transparent set of economic and monetary data. Information means control and it is not by chance that the IARC tried to introduce explicit barriers to possible manipulations. The statistics and regulations of the foreign reserves was – then and latter – a particularly sensitive point.

The implementation of the 1922 Law is instructive. Its positive psychological effect was very strong. The adopted ceiling for Government debt outstanding turned out to be too *high, and actual figures remained roughly 20% below it. This could not be considered as a proof for a wrong diagnosis by the IARC, but rather for its incompleteness. The provision of the Law for the issuing of Treasury bills by the Government was, in turn, utilized. There were three issues approved by the Commission in 1922, 1923 and 1925. The Treasury felt into arrears in all three cases and in fact consolidated short-term debt towards BNB into long-term debt. Nevertheless, the Law's disciplining impact on fiscal policy should be stressed. It was also the first step in a long lasting effort to put an order and some transparency into the budgetary procedure and the Government fiscal account. There is no doubt that foreign monitoring played a crucial role in this process.*

The second step in the transformation of BNB was its institutional reform negotiated as an unavoidable conditionality requirement of the 1928 Stabilization loan. The reform reshaped BNB into a purely issuing bank, by cutting all those functions that used to be utilized for hidden, or overt government financing. The violent national debate accompanying the decision revealed – once more - the profound etatiste *attitudes in the Bulgarian society.*

Although the League's position addressed a real core problem - the poor track record of BNB's relationships with the state – the organization had to accommodate the Bulgarian fears and to find a compromise. A sophisticated and exotic scheme was proposed. [Protocole… 1928. Annexe I et II] Shareholding by foreigners was ruled out, the Bank's capital was to bedivided into small shares (a kind of "mass privatization"), special preferences were foreseen for small shareholders at the public offer, the possible concentration of shares was strictly forbidden, the general assembly was supposed to have the right to elect only four members of the Board, the remaining four being appointed by professional associations. The Bulgarian Government did not implement even this strange design and state ownership was preserved.

The 1922 Law was a piece of extremely effective conditionality enforcement. The key for its success was the mastering of a coherent constraint on both monetary and fiscal policy, targeted at the core of their interface. The 1928 reform wrapped-up institutionally the "technical" measures of 1922. Later examples confirmed that the impact of a partial approach is substantially weaker. The impossibility to control the debtor country without a consistent, coordinated and credible conditionality imposed on both fiscal and monetary policy was illustrated once more by the aborted stabilization attempts in Bulgaria during the 1990s. By accommodating budget deficits in 1991-1996 the Central bank simply repeated a practice that produced never-ending conflicts with the creditors until 1928. This historical parallelism provides a long-view perspective on the implementation of the currency board arrangement in 1997. With this step Bulgaria tried to overcome a chronic and century-long inconsistency in its macroeconomic policy. The conflict was settled by *amputating* the essential monetary functions of the BNB and by transferring the monetary sovereignty abroad. In this perspective the Law of 1922 and the 1928 BNB Act emerge as precursors of an institutional arrangement that gave, by the turn of the century, a clear and coherent solution to a deeply rooted conflict.

Institutional conditionality could be considered from the creditors' side as well.

Creditors have never been a homogeneous community and their network gained complexity over the century. Until the end of WWI it typically included the representative of the bondholders, the underwriting bank and their home government (basically the Ministries of Foreign affairs and of Finance). It is an easy position to look at the banks as the mere arm of foreign policy. The pre-WWI Bulgarian reality actually gives some credit to such a view, with banks closely following the general orientation of the French

Government. The political background of the loans was never a secret, it was a part of accepted common wisdom. The 1904 and 1907 loans in particular were more or less explicit military and industrial operations in the field of the Krupp/Shneider competition that echoed French-German rivalry. The political component, however, was not ever present. Paribas and Deutshe Bank for example cooperated in Bulgaria at some moments against the prevailing foreign policy political trend.

The key figures were, in fact, investment bankers, opportunely labeled "confessors" by M. Flandreau. [M. Flandreau, 2000, p.14] His outline of their functions matches almost perfectly the Bulgarian experience, with only some minor retouches needed. The unique personal touch bankers offered, in particular, was of importance for middle/big debtors mainly. In more peripheral countries it was the local representative that assumed the leading role in the contact with local authorities. The accuracy of the information provided to the markets should be weighted against the many cases when – for one reason or another – the signals send were deliberately or unintentionally biased. Finally, it could be stressed that no "eternal alliances" were forged. Privileged bankers have often been "betrayed" by debtor countries. (The 1909 Bulgarian loan realized by Austrian banks against Paribas was a classical example) A departure from traditional networks was a risky gambling where debtors obtained some immediate gains often repaid at higher price eventually. As a rule Governments were in permanent search for fresh money. There were no restraints, no binding negotiations – parallel talks were going on with permanent changes of counterparts without prior notice. Intrigues and negotiations developed until the very last moment.

During the inter-war period important new institutions appeared. Associations of bondholders were constituted in order to deal with the problem of partial payments from Bulgaria (and other countries). The Inter-Allied Reparations Commission emerged as a focal point of conditionality. It was followed by the Financial Committee of the LN as the main coordinator of the two Stabilization loans.

Proliferating institutional arrangements have originally one raison d'etre*: to manage in a more or less orderly way some schemes of risk-sharing among creditors. Gradually, the conditionality world became so complex that it often produced more problems than solutions. The Bulgarian inter-war debt history clearly illustrates how this intricate machinery functioned. Archival evidence shows the presence of different conflicting groups, of rivalries and cross-dependencies among creditors.*

During the 1920s Bulgarian debt position became schizophrenic. Conditionality was split along three different lines – pre-WWI debts bondholders; reparation (political) debts, to a great extent to neighbor countries; stabilization loans under the trusteeship of the LN.

The reparation debt (intimately related to the inter-Allied debt chain) dominated the overall issue and the settlement of the Bulgarian reparation problem is a good example how a small country interacts in such a complex network. The first agreement concerning Bulgarian reparations was signed on March 21, 1923. The next milestones matched the main steps of the global reparation settlement - The 1930 Hague Conference, the Hoover Moratorium and the ensuing fading away of the issue.

The March 1923 agreement was concluded only after the first phase of the "reparation philosophy" was exhausted. The Ruhr occupation marked the limits of the Allies extremist positions aiming at a literal compliance with the Versailles system, without considering the real solvency of the "debtor" countries.

The Bulgarian agreement was made possible after protracted tensions and only when the pivotal "precedent issue" permitted a deal. In fact, the case of a small country could not be separated from the master case of the German reparations. As their *repayment was delayed and the Austrian/Hungarian reparation figures were still not fixed, the Bulgarian agreement would have set the precedent of a formal reduction of the reparation debt. This concern explains the cautious formula chosen, but its wording could not hide the main point. Bulgaria benefited from the long protraction by reaching a compromise at the right moment, when the "all or nothing" attitude to the reparation problem was recognized as inadequate, when a new consensus was emerging and the more pragmatic British position, accommodating some kind of debt servicing reduction was gaining momentum.*

The Bulgarian case was a part of the precedent setting game but also of a conceptual shift: the move in creditors' attitude towards a more realistic assessment of debtors' possibility to repay. The officialization of this position came with the "Dawes" and the "Young" Plans. Extreme conditionality failed to produce the expected economic outcome and it became evident – confirming J.M.Keynes' views - that debtors' stabilization was a pre-requisite for repayment. The conditions for the next step - an explicit debt write-off and a final arrangement – were not yet in place.

The second principle, which was gradually accepted, was that reparation payments could be met only if sizable capital flows were oriented towards debtor countries. This was a clear departure from the conventional extreme conditionality view that debtors should be isolated from capital markets. German reparation payments started only after capitals flew in, and the country was allowed to issue long-term bonds, thus rescheduling its debt. [Eichengreen. 1988. p.6]. The direction of capital flows was inverted: after the initial unilateral transfer of resources from the debtors they were allowed to roll over reparations trough capital inflows. This basic idea was first tested and packaged in the 1923 LN sponsored Austrian stabilization.

The early 1920s experience showed the impossibility to settle a debt crisis in a peripheral country without an acceptable solution for all the main categories of creditors. A favorable outlook for a global solution was essential, as well as a mutually accepted loss-sharing formula among creditors. The maturing of those compromises during the 1920s constituted the background of the Bulgarian reparation problem's settlement. It became possible when a global arrangement among the major players was in sight and after consensus for a change in conditionality's philosophy was grosso modo *attained.*

A similar learning cycle was repeated during the negotiations of the two Stabilization Loans of 1926 and 1928. They provided a crucial capital inflow in Bulgaria that permitted to achieve a short-lived currency and macroeconomic stabilization.

In 1924 – 1929 the Bulgarian case continued to be a facet of the two major international economic problems of the time: the reparation knot and the gold standard issue. The precedent aspect surfaced again due to the insertion of this particular case into the fight for financial influence between France and Britain. [K. Moure, 2000] The rising Anglo-Saxon strength meant, inter allia, *a more flexible approach to the global reparation problem, allowing for instance a greater capital inflow to debtor countries. The stabilization loans (as the previous ones for Austria and Hungary) were seen from the very outset as instruments for a geopolitical reorientation.*

The 1928 Bulgarian Stabilization loan came with a significant delay, years after the Austrian and the Hungarian, and only before the Romanian loan. [K. Moure, 2000] Bulgaria negotiated the 1928 deal when the conceptual framework seemed much clearer. The main currencies were already stabilized and possible revalorization was no more an issue, the leading role of Central banks in the process was consecrated, as was the financial role of Wall Street. The temporal sequence and the "hierarchy" of stabilization were well established. There was a consensus view to proceed on a case by case basis, with "first" and "second" class currencies. The institutional package was more or less *polished by the FC, the leading central banks and the FRBNY. [St. Schuker, 2000; K.Moure, 2000]*

Despite this seemingly neat context, there was no vacuum and even peripheral cases were transformed into battlefields. The constellation of interests set in motion by the first Bulgarian sondage in 1925 involved three main actors. The French/British (Banque de France/Bank of England) rivalry concerned the direct control over economic policy and over the future loans' pledge. The bondholders of the pre-war debts were also directly concerned: a possible bond issue by British and American banks posed complex inherited unsettled problems. Finally, a key third player appeared with the LN as the promoter and Trustee of the future loans. The League had its own agenda, seeking in particular the enhancement of its own prestige.

The ambiguous "cost/benefit" assessment of the loans from the Bulgarian point of view is symptomatic for the complexity of the problem.

Stabilization loans were a decisive break-trough into the IARC extreme conditionality, as the first lien pledge was transferred from the Reparation Commission to the LN. In fact this step represented a "comercialization" of a political debt. In the context of Bulgarian foreign policy this symbolic outcome was more important than the strictly economic terms of the loans.

The entry into the scene of the LN proved to be an ambiguous feature. Later developments provided examples when the League's involvement permitted to manipulate rivalries between post and pre-war loans' bondholders. There were, however, also cases when the interests of the two communities coincided and in fact multiplied the burden of the foreign pressure. A more far-reaching effect of the 1928 Stabilization loan was the entry in to the sphere of influence of the Anglo-Saxon conditionality style. Bulgaria joined a select small group of countries ratifying this new style. That meant a different conditionality culture, mixing hard-core pragmatic, economic and ideological principles. The Bulgarian authorities tried to emphasize the absence of formal symbols that characterized pre-war loans' monitoring, or by comparing the loans' parameters to those of other countries. The reality, however, was a harder conditionality that had to dominate until present days.

Assessing the purely macroeconomic impact of the loans is not easy. An essential result was the diversification in the country's debt stock and the access to the already dominant British and American capital markets. A widespread view, however, questions the very need of the loans for the recipient countries. The well-known Romanian example is often cited as a case of meaningless operation, with a negative effort/benefits balance, and without a lasting stabilization and institutional effect. This controversial result is largely attributed to the competition between the Banque de France and Bank of England. [St. Shuker, 2000; K. Moure, 2000] The Hungarian, the Greek and the Bulgarian defaults of the early 1930s are further evoked as an evidence of the failure of League loans. [St. Shuker, 2000, p.9] Although there are differences among those three countries it could be demonstrated that the Bulgarian loans, at least, had a well-founded macroeconomic rationale. They permitted to restore stability concomitantly with achieving badly needed institutional efforts. The aftermath of the loans is a different story. Their positive impact was rapidly exhausted due to the self-enforcing combination of the Depression and of the "easy money" fever produced in a soft constrained economy.

A characteristic trend in debt conditionality was the gradual shift of decision-making from opaque informal private banker's/civil servants communities towards a formalization of the procedures. It is not a surprise that the polyphonic creditors' *milieu* of the 1930s did not manage to reach consensus decisions and successful plans for the global debt crisis. The post-WWII consecration of the formal institutional approach should be, at least partly, credited for the fact that the postwar plans to deal with global debt crises constitute a real progress. Bulgarian debt history provides a good historical perspective in this respect.

Bulgaria defaulted partially in April 1932 following many Latin American and Central European countries. The intents to find a global solution for the early 1930s debt problem (wrongly determined as a liquidity crisis) failed. It was assumed that each case would be treated on its own through negotiations between debtor countries and the bondholders. [Eichengreen. 1988]. The very importance of the precedent was in a sense downgraded, as within a case by case approach every solution is considered by definition as unique. The situation was further complicated by the ambiguous presence of the LN. From one side, the FC exerted the macroeconomic conditionality in debtor countries, thus providing a "public good" for creditors. From the other, however, the LN was a trustee of important stabilization loans. It was not a neutral player, but a source of conflict of interests, an antagonist for a segment of bondholders. What is more, the pre-war bondholders' community was not homogeneous, with tensions between different national groups, as well as between more/less secured creditors.

During the intense search for a way out various spontaneous market-based solutions were formulated. SAEF archives give account, for example, of a personal initiative from May 1932. It was labeled a "funding plan" and elaborated by the colonel Enaux – an active figure in the civil society for the settlement of private claims against Bulgaria. Bulgarian archives and publications prove the existence of a similar plan formulated by the head of the Debt Directorate Nikola Stoyanov. Both projects had three basic common features: proposals for a dramatic write-off of the debt stock in line with its sharply reduced market value (in 1934 quotations of Bulgarian bonds were at 5-12% of their face value); an issue of new bonds to substitute the existing underquoted ones; a possibility, allowed to the Government for buy-backs of its own debt.

The financial community was not ready to accept officially such a settlement. A delicate suggestion by N.Stoyanov along those lines at the September 1932 Conference in Stresa was simply ignored. It seems, however that the practice of undeclared market-based solutions through buy-backs was surprisingly widespread. According to Eichengreen and Portes a dozen debtor countries bought back 15 to 50% of their bonds. [Eichengreen and Portes. 1989. p.45-46] In the case of Bulgaria a buy-back at a 90% discount was formally allowed in the 1935 agreement with the bondholders. During the second half of the 1930s the Government realized buy-backs on a large scale.

Bulgaria declared a second partial moratorium on its foreign debt payments in November 1934. The main difference with the 1932 episode was that in this case the Bulgarian decision was unilateral, isolated and openly confronting the creditors' position. An essential principle of the "default ethos"- never to break contacts with creditors - was violated and they considered the incident as a potentially dangerous break through. It was too late for Bulgaria to benefit from previous precedents, like during the 1932 generalised wave of defaults. The world economy was at the outset of the post-Depression revival, and the creditors' stance was stronger. A new precedent would have been too costly for the financial community. In this instance the bondholders of the pre-WWI and the League loans acted in concert under the leadership of the FC. The conflicting interests between the two groups were put aside. Bulgaria faced an unavoidable ultimatum and was forced to accept the imposed conditions. This case was a perfect demonstration how a common attitude can reinforce the strength of different creditors' segment.

The validity of the lessons from the inter-war period was tested half century later, during the debt crisis of the 1980s. [Eichengreen and Portes. 1989; Eichengreen and Portes. 1995] As part of this crisis Bulgaria provided its own piece of evidence.

The plans to deal with the global problem almost literally repeated, in a very different institutional context, the cycle of the 1920s and the 1930s. The same "maturing" period was needed in order to adopt more market oriented, more adequate, and more country-specific solutions. The initial "hard" reaction was to isolate misbehaving debtors from capital markets. This policy was followed by the "Baker plan", allowing some financial flows (mainly from the IMF) to be injected into debtors in distress in order to enhance their solvency. Finally the "Brady-type" solutions were designed: a series of country-oriented menus that take into account the market assessment of the debtor's position. Overall, the three stages reproduced the 1920s and 1930s shifts from extreme institutional conditionality to a more sophisticated, market based one. The unilateral transfer from the debtor countries was gradually substituted by an approach (the "Baker" plan) that supposes capital inflows to those countries. The initial rejection of any debt write-off was replaced (after heavy provisioning by the creditor banks) with Brady-type schemes that include important write-offs, buy-backs, rescheduling and maturity lengthening. An adequate balance between the different groups of creditors (London club, Paris club, IFI) was also found.

The place of Bulgaria in this global trend was quite similar to its role in the inter-war period. In March 1990 the country defaulted on its debt to private creditors. Bulgaria entered capitalism the same way as Russia entered communism. As in the past, the country had to "wait and see" the gradual maturing of the creditors for a specifically tailored "Brady" deal that was signed in June 1994. The main features of the deal were remarkably similar to those outlined by the above-mentioned Enaux and Stoyanov plans in 1932. The mediation and conditionality role of the IMF, from the other side, closely matched that of the LN in the 1920s and the 1930s. A second "Kondratieff conditionality cycle" was completed.

Bulgarian history leads to some generalizations concerning debtors' bargaining position.

The role of marginal countries was at most to be a forerunner, a test case that affirms a new conditionality paradigm and sets precedent. This is a risky role, which could be capitalized only with an artful mix of negotiation skills and some chance. In a sense the "wait and see" strategy always paid-off as creditors' attitude unavoidably shifted from extreme to more or less "soft" schemes.

Playing conflicts among creditors is an evident option but those opportunities are rarely manageable by debtors. Sometimes they could be captured passively, usually producing only marginal benefits. Bulgaria has been a "moving periphery" of the main conflicts at the global scene. In some point it could be placed at their center, while in other it was a completely passive subject of distant events.

Further, there is no doubt that debtor's bargaining position was cyclically sensitive, improving during favorable conjuncture at home and/or in a context of strong competition among lenders ("emerging markets" always present attractive investment opportunities).

Finally, the question could be addressed to what extent debtor's "good behavior" is rewarded. The answer differs depending on who is exerting conditionality. As a rule markets do have memory – they accommodate a "virtuous" debt history and penalize misbehavior. When conditionality is exerted by institutions, however, the field for subjective bargaining is vast. There is abundance of cases where troublemaking debtor's behavior matters, while to be an "exemplary" player does not yield the expected benefits.

But bluffing cannot be a permanent posture: there is no definitive, ultimate financial "affranchissement" for a small country.

The relevance of this sketch for the economic identity issue is in the extreme fragility of the debtor's position – permanently changing debtors' roles are identity changes.

Conditionality's intellectual realm – symbols; imported orthodoxy; media and politics; importing a language

Conditionality produces its own intellectual realm: distinct symbols, ideological and doctrinal orthodoxy, a specific language. Some historical patterns that could be explored further are outlined in this section.

Conditionality is a highly hierarchical relationship and it is always of foremost importance for creditors to make this fact explicit. Debtors, on the other side, try to reduce the **symbolic content** of conditionality rules.

This inherent conflict took disproportionate proportions in early modern Bulgaria as the country had just won its Independence and was still in effervescent nationalistic fervor. The public attention devoted to the debt issue could now appear incomprehensible in view of the relatively moderate (in historical as well as in geographical perspective) debt burden. Nevertheless, the fact is that the first foreign loans were broadly felt as national trauma, as original sin and a cultural turning point. Every deal was accompanied by endless debates and by political turmoil, directly provoking at least four Cabinet crises at the turn of the 20 c.

Early conditionality was completely immerged in an irrational war of symbols. It reflected atavistic fears from the "outside" world in the closed, archaic and patriarchal Bulgarian society. More fundamentally, those fears and a latent "economic xenophobia" were based on the ultimate suspicion against capital itself. A number of examples of conflicting points could be mentioned, ranging from insignificant details to essential principles. A tentative list includes such different topics as the location of the delegate's office, his diplomatic or tax statute, the amount of his remuneration and of some benefits (paid by the Bulgarian Government budget), etc.

The problem was further complicated after WWI with the interference of the reparation payments issue. Bulgarian opinion became extremely sensitive to the signs of national humiliation and easily amalgamated strictly creditors' conditionality with war debts. The *a priori* rejection of reparations tended to legitimate reluctance to repay *any* debts.

During the Inter-War period high in the list of symbolic conflicts were the recurring requests by the LN for a squeeze in the number of government employees, or the pressures (during the Depression) for a decrease in public education expenditures. The first point was officially attacked as an inadmissible interference in national sovereignty, but the real challenge was the potential narrowing of a highly coveted pool of political clientelism and protected employment. The second issue provoked the protests of the intelligentsia, fearing that the LN is eliminating government-paid jobs (properly - implicitly subsidized transfers) for the educated elite. In a broader sense it was considered as an attack towards the fundamentals of the Bulgarian modernization model. Since Independence it relied heavily on the role of mass literacy and public instruction as the essential vehicles of modernity. Investment in human capital was important indeed, producing at some moments even excess supply of overqualified labor.

Overall, two symbols dominated the public debate on conditionality in pre-communist Bulgaria: the presence of foreign representatives and the status of the BNB. The physical presence of bondholders' representatives in the debtor country was highly symbolic and a constant motive for irritation of the local opinion. The state-owned BNB status, on the other hand, was traditionally considered as the untouchable symbol of a successful development paradigm. Every questioning of this status was treated as a challenge to the establishments' "politically correct" ideology. Strong lobbyist interests to keep the *status quo* were, no doubt, also nurturing the hard position.

The gradual depersonalization and bureaucratization of today conditionality undermines to some extent its symbolic aspect. Although nationalistic politicians occasionally exploit it, globalization obviously reformulates the problem. The focus of symbolic wars gradually shifts towards anti-globalism activism, as well as towards different forms of Euroscepticism.

Conditionality is the vehicle of a **doctrinal economic orthodoxy**. It has always been difficult for pre-communist Bulgarian opinion to realize that among the essential creditors' assets is that to "impose" a particular economic ideology. (In communist times it was easier to understand). This implicit "right" reflects creditors' prerogative to assess the "appropriateness" of a debtor's policy in the perspective of their main goal – to secure the investment's return. Understandably, the assessment is made according to creditors' values.

The problem becomes acute when there are fundamental differences between "imported" and local economic values. The clash between the dominantly liberal (Anglo-Saxon) societal model of the enforcers of conditionality (advisers, creditors' representatives) and the traditionally strong *etatiste* (typically French) and collectivist Bulgarian economic mentality was a major conflict all over the century. It started with the bondholders' representative presence, continued along the ideological conflicts with the LN doctrine (inspired by the core of the 1920 Brussels orthodoxy) and ended with the recent difficulties in absorbing the "Washington consensus" principles.

Remedy proposed by foreign advisers and IFI are typically a mix of pragmatic, conservative, common sense fiscal and monetary policy rules. It is upon closer look that theoretical fundamentals appear and their identification is complicated when several competing models are promoted. In the late 1920s and early 1930s for example, Bulgaria as other stabilizing countries was the arena of a fierce struggle between the opposing French and Anglo-Saxon monetary models.

"Theory" meant power and political control - the core of the conflict was not so much BNB's conceptual attitude towards the gold standard but competition for the control over the bank of issue. In this particular case France won the "doctrinal" battle: Bulgaria nominally remained in the French camp and was even praised as the one country that still maintains a credible link between its currency and the gold. This was, however, only *pro forma*, as the Lev was implicitly devaluated trough a complex mechanism of "compensation coefficients" for foreign trade transactions. The British digested without major problems this "theoretical" setback by obtaining a much more tangible administrative victory. In 1932 they imposed the split of the position of the LN Commissioner by introducing a new position of adviser to the BNB having a close control on the LN loans' proceeds. (This split was foreseen in the 1926 Loan agreement, but the decision was delayed, the two functions being cumulated by Rene Charron).

It should be observed that conflicts between foreign monitors' and local counterparts' ideological preferences have not necessarily undermined agreements. One of the most populist Bulgarian governments for example adopted the key 1922 Law on the ceilings of money circulation. On the other hand, it could have been expected that the semi-autocratic regime in place since May 1934 would be an easier interlocutor and a more reliable counterpart to the Financial Committee and to foreign bondholders. As for Pinochet's economic policy, years later, the autocratic orientation of the Government was considered a secondary, not disturbing matter for creditors.

Surprisingly for outsiders, the series of Bulgarian governments in the mid-1930s turned out to be even less cooperative. Their initial posture towards the bondholders was harder. Bulgarian autoritarism has never demonstrated excessive conceptual imagination. While putting some order in the fiscal area, it pursued a more pronounced ***etatiste*** domestic policy. Government's lifting arm became stronger, but the risks and the perverse results of its economic policy were also multiplied.

In exploring the conceptual fundaments of conditionality, the particular situation is mentioned when a country becomes a test case for a new theoretical scheme. Bulgaria has been twice in such a situation. The first instance was related to the stabilization loans of the 1920s, when the country pertained to the small group subject to the League's stabilization paradigm experiments. The second case is the present currency board arrangement – a rare monetary regime implemented in half a dozen of countries. The Bulgarian experience supports the view that the status of a "test economy" changes to some extent the conditionality framework. From one side the country is treated with a touch of cautious benevolence and produces a genuine theoretical interest. From the other, the specific status and the conceptual challenge tend to attract monitors of a higher intellectual standard. Although the assertion could not be empirically proven, the engagement of first order economists with the extreme cases of economic pathology is a matter of fact.

Trying to generalize one step further, it is debatable to what extent IFIs (past and present) are at the sources of economic theory. Probably their place is better defined as special types of "polygons" that do not secrete theory, but "doctrines" – easily applicable standardized set of pragmatic rules. Such a famous case as the LN-commissioned study on business cycles by J.Tinbergen and G.Haberler, for example, produced a theoretically rather eclectic output. [Haberler. 1937; Tinbergen. 1939] The research departments of post-WWII institutions often harbor high-level professionals that do not pertain to a single theoretical school. What is unquestionable is that IFI became a source of more or less rough material recycled by academia.

An important area of foreign conditionality realm concerns the complex **relationships with local politics**. Creditors' representatives are never complete outsiders in the local scene. They have often served as quite useful referent antagonists for Bulgarian politicians. Foreign advisers have been a favorite target for populist parties. Governments themselves orchestrated a number of public campaigns against advisers' presence and policy prescriptions.

With time Bulgarian politicians, as everywhere, acquired the skills of "double messaging" – they learned to use anti-conditionality language at home, and simultaneously to utilize conditionality for domestic political pressure. In the past, as today, conditionality requirements were a perfect ***alibi***. In fact, this is a common case for every superposition of national and supranational authorities. As it has been observed, such a situation is not far away from, say the deonthology of the relations between the European Commission and the Governments of the Member countries.

Foreign monitors, from the other side, have also actively played domestic political life. In many instances they have manipulated directly the public opinion trough newspaper campaigns and the media.

The bondholders' community was targeted when necessary. Leon Berger, the French head of Dette Publique Ottomane, for example, organized a hostile campaign in France that undermined the credibility of the 1896 loan to the Bulgarian Agricultural banks. The campaign was motivated by a cross-creditors conflict of priority as the Dette's French bondholders considered that Bulgaria should not obtain new credits while in arrears with payments due to their institution. The media attack had a tangible harming effect on the securities underwriting.

*A different case of manipulation is a curious series of six articles, prepared in 1901 to be published in the Bulgarian press. (They are conserved in Paribas' archives, Paribas, 4\Cabet- 1\80) The articles were promoting a loan deal with the Bulgarian Government, pledged by the concession of the tobacco monopoly ("Regie du tabac"). The wording, the tone and the arguments exhibit a shockingly "*agitprop*" and mass propaganda style. The unsigned texts (written from "people's" name) were tailored with a good knowledge of the national psychology and of the most sensitive questions for the public opinion.*

These pamphlets are not an archaic large-scale PR operation. There are fresh memories of the launching of the Currency board in Bulgaria. In late 1996 the idea was presented to a virgin and uneducated public opinion. The information vacuum had to be filled out with surrogates, and the IMF inserted in the local media a set of simplistic and naïve articles that bear a surprisingly close resemblance with the 1901 specimens.

Creditor's bargaining position and conditionality enforcement could not been dissociated from local networking and clientelism. Foreign players have been important agents of corruption.

The early XX century reality provides well-documented cases of debt-related corruption. Paribas and other French archives, as well as the reports of Bulgarian Parliamentary Inquiry Commissions personalize the problem. In the typical case local representatives of the foreign banks, international affairistes and lobbyists, top executives of big concerns were involved. Their Bulgarian counterparts ranged from ministers to MPs and bankers. The semi-official status of the bondholders' delegate facilitated his implication in business deals. It was current practice to have him seating in boards of financial institutions affiliated to the creditors' bank. Scandals in this milieu were endless. The "standard" ones concerned conflicts over the bargaining of the commission to be paid and/or the inaccuracy of the payments. Remuneration for the traffic of influence took very different forms, from simple "monetized" contributions to arrangement of important business services.

Corruption was something commonly accepted as a fact of life from both sides. The interplay between politics and economic interests was often criticized by the opposition in turn, but never really questioned as a practice. The French occupation authorities produced in late 1918 one of the most expressive documents in this respect [SAEF. B31.578], by establishing a list of the newly created joint-stock companies during the WWI grunder *mania. The accompanying commentaries outline a precise mapping of the political clientelism in the country, fed by German interests. It omits, of course, the similar, but failed large-scale French endeavor of 1915, known as the De Cloziere affair, that would have produced a very similar list.*

The new conditionality style in the after-WWI period changed the position of the representatives as well. They acquired an official, diplomatic status and their presence was more institutionalized. This did not prevent, however, conflicts of interests, or even rumors of corruption. Scandals shifted to the international relations domain. One of the most publicized conflicts, for example, concerned the role of R.Charron in the attribution of the public procurement for Bulgarian railways. It became clear that France had secretly bound (a widespread practice) the authorization for its portion of the 1928 Stabilization loan to promises by the Bulgarian Government to sign industrial contracts with French companies. The engagement was made public and provoked tensions with Czechoslovakia and Italy, which were French competitors in the same market. Those were not isolated cases. Corruption was a generalized phenomenon during the bond mania of the 1920s. Congressional hearings demonstrated that banks offering underwriting of foreign securities were extremely active corrupting agents. [Mintz. 1951. pp.68, 77]

The semantic of **conditionality language** is a specific topic. It could be demonstrated – on the basis of Bulgarian experience – how the style of the documents (official and personal) changed with time. LN reports are more ideologically stamped and aggressive than the relatively neutral and diplomatic IMF letters of intent. The reports of Paribas representatives in Sofia to their headquarters are richer in all kind of information, with a clear personal touch, and a ***belle-lettres*** stylistic, incomparable to the e-mail technocratic style of today bureaucrats. All those differences are simply a side reflection of the changing bureaucratic mentality and culture. Differing languages express differing mentalities.

It should be stressed, as well, that for a backward country like early 20 century Bulgaria, conditionality language set standards in a sort of vacuum. The scarce domestic ***elite*** was either inexperienced in practical matters, or rooted in a very different cultural tradition. It needed to be familiarized with the professional language. A similar phenomenon was observed in the early 1990s with the inflow of the IMF slang in an almost completely Marxist-indoctrinated professional ***milieu***. Different languages, at the end, are not more than the symptom of diverging dominant mental patterns.

Conditionality is itself conditional on information. The assessment of a country's creditworthiness for instance is not possible without commonly agreed data. It is not by chance that "information wars" with creditors were so common in Bulgarian debt history. The most coveted figures by them (zealously hidden, in turn, by the local authorities) were the real amount of BNB gold reserves, the authentic volume of Government debt and deficits, the true money issue and cover ratio… In this struggle for information the contribution of foreign advisers was crucial for the setting out of a more comprehensive and coherent explicit economic data. Fiscal and monetary data, in particular, have been developed to a great extent for the needs of foreign monitoring. In the early 1930s the focal point was the development of reliable and transparent fiscal accounts that consolidate the numerous "autonomous" quasi-fiscal funds used as a mean to relax the official fiscal restrictions. A similar exercise was repeated in the 1990s when, beside reliable fiscal data, the completely missing monetary (including Central bank) statistics had to be created *in toto*.

THE INTERPLAY OF INFLUENCES - THE SOFT WAY (INTELLECTUAL INTERPLAYS)

Financial flows of foreign borrowing provide the platform for tough games. They are probably the most effective in imposing a certain "economic philosophy". The reverse side is, however, a rejection instinct triggered by the form, if not the substance, of the "intrusive" ideology.

Parallel to this channel of intellectual influence, more diffuse, fuzzy instruments have always been at play. They penetrate through more diffuse paths and do so less transparently. Their impact, however, could be deeper as they touch the intellectual formatting of the local elite. Intellectual history (the archeology of concepts, discourses and traditions, according to B. Trencsenyi's definition) provides the key to many traits of national's economic identity. [Trencsenyi, NEXUS Discussion] "Travelling ideas" (again a fortunate expression of B.Trencsenyi) have their source outside, but are shaped by the local context.

Different approaches could be adopted in this "archeology exercise". The study of the educational background of important public figures is a possible one. In this paper I opt for an overview of the Bulgarian *economics* legacies.

Economics incorporates in a peculiar way the general patterns of cultural influences. Although universal (by definition) economic science features nuances that reflect distinct *longue duree* national attitudes and values. Economic research in the current transitional background, in particular, amalgamates the powerful legacies of the communist period, the pre-war tradition and the conditionality impact.

The less evident and subtle influence comes from the more distant intellectual legacies. Economic knowledge develops in a continuum even when it seems, at first glance, that profound rifts appear. If the communist inheritance is a "first-round" explanatory variable, the more distant past constitutes a kind of test for the limits of the intellectual achievements possible in a "spontaneous" environment. Legacies do not necessarily surface as a revival of old theoretical schools. Their impact is visible in indirect indices such as the deonthology of the profession, the agenda setting of economic research, its institutional forms, the preference for certain topics, the bias towards specific *cliches* and modes, the educational traditions or the impact of economic advice on economic policy decision making.

Formatting economic knowledge

European tradition has been the driving force for ***pre-communist*** Bulgarian economic science. This influence was enhanced by the already mentioned doctrinal orthodoxy imported through economic conditionality.[*]

East-West contacts in the field of economics, however, have never been easy or comfortable. Training abroad of a great number of Bulgarian economists did not mean an automatic interiorization of Western values. The rule was rather, a superficial absorption.

Theoretical knowledge was characterized by a deceiving lack of original conceptual contributions and by marginality. Economic theory thought in local universities was eclectic and epigone. When a global vision was needed to face major economic challenges, the projects produced were either kind of "plagiaries" or social utopia with systemic drive towards collectivist ideologies. Reliance on outside authorities was the rule, with the corresponding humility and excuse of "smallness". There was a marked disbalance in the areas of development of theoretic knowledge. It is not by chance that in a hardly monetized and etatiste economy fiscal studies attained relatively higher levels compared to monetary research.

In a sense, this profile of economic knowledge prepared intellectually the coming communism through strong dogmatic and casuistic components, and through stable semantic constructs. The era of the scholsatic communist "political economy" was open *ex*

[*] The Russian influence should also be indicated. It was sometimes through Russian authors (with the corresponding distortions) that Western ideas reached Bulgaria.

ante. As opposed to pre-communist Hungary, where Marxism was marginal [Trencsenyi, NEXUS Discussion], in pre-communist Bulgaria it was affordable, if not a respectable paradigm.

The national heights in economics were elsewhere, in descriptive, and (to a lesser degree) applied research. Outstanding achievements were produced in “mapping” the economy through monumental descriptive frescoes. Business cycle phenomenology was particularly well captured according to leading international standards. A corollary of this bias was the decent technical expertise offered, by the 1930s, in the field of economic policy.

The role of the leading research institutions deserves some attention. The Bulgarian Economic Association (BEA) shaped the cognitive standards in the economic profession, the politically correct discourse, and the public debate. BEA’s influence, however, was not only related to its intellectual appeal, but to a great extent to the fact that it was a first-order pool for the recruitment of the political establishment. The State and the BNB heavily subsidized it. Otherwise, the Association faced a weak interest among the general public, as well as strong utilitarian expectations.

The highest pre-1944 Bulgarian achievements in economics were attained by a non-typical research center – the Statistical Institute for Social Studies (SISS) (1935-1938). Its institutional design created a remarkable harmony between demanding scientific standards, elitisme and organizational autonomy. The construct rested on several pillars. The Russian émigré and renown statistician Oscar Anderson (residing for two decades in Bulgaria) assumed a strong and internationally recognized leadership: he created a full-fledged “one-man institute” like those of N.Kondratieff (Moscow), E.Wagemann (Berlin) or W. Mitchell (USA). Effective and well regulated contacts with technocratic government institutions were carefully designed. Financing (Rockefeller foundation, Bulgarian National Bank, Agricultural bank) was wisely mixed and conflict of interests avoided. The research program was completely in line with mainstream positivist economics. Finally, a high-level international research network was established, including R. Frish’s Institute in Oslo and League of Nations
(Tinbergen-Haberler) projects. The short-lived SISS experience demonstrated that – under particular circumstances - convertible positivist knowledge could be produced in a peripheral country.

After WWII the most prominent names in economic science faced the dilemma between ostracism from Universities (research institutions) or opportunistic coexistence through conversion to dogmatic Marxism. A soviet type research infrastructure was put in place. Given its strong vested interests and the natural inertia of science it is understandable that ***the Communist legacy*** is still a factor. Ivan Elenkov convincingly demonstrated it for the field of historical research. [Elenkov, 2002]

Let remark that the role of the communist research institutes was twofold. From one side they produced “official critical thinking” that was entirely inside the *status quo*, never challenging the fundamentals of the regime. The results (even the most “critical”) were never part of a truly mainstream theoretical framework. From the other side, the official institutions tolerated “soft dissident knowledge”. These places were in no way intellectual deserts. Control and inaccessibility of Western economics should not be overestimated (as the report tends to do) at least since the mid-1970s. Researchers that really desired so had the possibility to be informed (at low cost in public and academic libraries) about the main trends in mainstream economic knowledge. The much more tangible barriers (in Bulgaria) were the scarcity of foreign language skills, education and the social context. Education, in particular, was completely indoctrinated, so that - even for those that tried to fill the gap - entire formational building blocks of Western economic theory were missing. Insertion into the mainstream context was further obstructed by the lack of social (career) incentives to develop such knowledge, given the strongly dogmatic professional ***milieu*** and non-existent contacts with the Western scientific community.

At the end of the day the "dissident choice" was quite restricted. Mathematical methods (as elsewhere in communist countries) offered the possibility of internal emigration and implicit rejection of Marxism. Results, however, were disappointing. Generalizations, as a rule, remained inside the dominant discourse. Applied econometrics was of poor quality, inconsistent with mainstream patterns. Some marginal Western areas (such as large-scale models and input-output analysis) were over-represented due to their compatibility with the socialist – "naturalistic" and demonetized – conception of the economy and with planning practices. Misinterpretation of Western theories was also frequent as a result of limited understanding of their substance, and (above all) of their context. The case with "economic cybernetics", cited in the report, is one of the most adequate illustrations of this phenomenon: it is not an example of Western influence (as interpreted in the report), but rather the contrary, the demonstration that simple transposition of fashionable theories does not represent authentic critical thinking. The only additional refuges available were the possible choice of more technical (less ideological) research issues, or the studies of capitalist economies (a semi-open window to the realities of the market). It should be noted, as well, that the more empirically oriented economists developed marvels of sagacity and uncommon skills in dealing with the statistically biased communist realm.

Overall, Bulgaria did not produce radical "dissident" economic knowledge in its two possible dimensions – a critique of the regime's fundamentals based on mainstream theories, or the formulation of original theoretical insight explaining (in a mainstream framework) the functioning of a communist economy. The only exceptions, in my view, are the results of V.Antonov on inflation, growth and cycles in the Bulgarian economy published in the second half of the 1980s.

Transition's Economic Knowledge. Bulgaria faced transition with an inadequate legacy mix in economic science – lacking insightful pre-war tradition and one of the most dogmatic socialist intellectual inheritance. Much had to be built from scratch.

The short-lived Bulgarian *perestroika* (a pale mimicry of the Soviet original) was only a half step ahead. It boiled down, mostly, to a failed intent of a new generation's revenge against the sterile scientific establishment in place. *Perestroika* generated strong critical pathos and sometimes-bright esthetic discourses (closer to "economic poetics") but almost no practically and theoretically consistent visions and analyses. At the outset of transition few coherent ideas were available while a cohort of "naïve liberals" invaded the public scene.

After 1989 the landscape in economic science slowly evolved, facing many institutional and conceptual problems.

Transition expert knowledge was gradually fragmented, privatized and politicized. Some of the new institutions (NGO, think tanks) have a potential to perform serious research, but the dominant trend transforms most of them into political mediators and/or "indoctrination devices". They are typically producing "soft (minor) science" of dubious quality, competing for networking rent and existing at the edge of consultancy business. As most of the projects are foreign financed, demand creates imported discourses and agenda.

The remaining traditional research units suffer from low budgeting and spontaneous adverse selection. Markets and Government absorbed dynamic and "convertible" people from academic institutes. The institutes themselves are evolving into nutshells-like structures hosting independent individual projects. Universities are, by definition, conservative and inertial. Top faculty is renewed very slowly, old curriculums are often recycled only superficially or incoherently, poorly translated or compiled textbook are used, while at the same time the demand for economic education is booming.

The change in the profile of the "transition economist" is a long and controversial process. The first generation started with a typically depreciated and idle intellectual background. It was impossible to cope rapidly with the "formational holes" and to bring together the dispersed archipelago of meaningful knowledge. Cosmetic changes, mimicry and superficial notions of market were widespread. Etatiste instincts reappeared at the first contact with Government where many economists acquired new positions: the State generates its own, intrinsic, anti-liberal values. Former intellectual networks desegregated at the touch of political power. Economists in Government (sometimes better trained and influential community) faced the inherent limits of bureaucratically produced knowledge and the ambiguity of its messages.

The growing up of a critical mass of mainstream economic knowledge is largely a generational phenomena. While the gap in practical expertise is filled relatively rapidly, "theoretical deficit" will subsist longer. The maturing of a new generation formatted in contact with the West is necessary. Education in Western Universities is the most effective catalyst, but brain drain and educational mobility are equally important. They produce an "international-Bulgarian" research community that will fill the gap in a mid-term perspective.

The role of EU accession and of scientific cooperation with Europe is essential. The experience with *ad hoc* research programs designed for candidate countries (ACE, TEMPUS) has so far produced mixed results. No doubts, they were precious mobility instruments and created a wide range of otherwise inaccessible opportunities. At the same time, those instruments fostered mid-level standards. An *international of mediocritas* tended to emerge, while the number of opportunistic applications inflated. Networks of vested interests appeared. For many Western universities and research centers the programs were seen mainly as important sources of additional subsidies. It seems wiser to privilege two axes: support of "spontaneous" contacts, based on excellence and high quality research; assistance in building basic educational facilities and in students (incl. Ph.D.) mobility.

EU accession is a harmonizing factor with enormous learning impact on domestic elites. It will probably not preclude the trend of growing Euroscepticism among the scientific community. This trend, however, is not alarming: it should instead be considered as a healthy indicator of deeper economic insight.

The overall economic research agenda, indeed, is not expected to change.

It is hard to predict outstanding "high theory" developments. As a rule, personal achievements that rarely correlate with the institutional strength of economic research. The universal use of English as *lingua franca* and global virtual communication are downgrading the importance of a country's size for its potential contribution to "high theory".

Economic research in Bulgaria is returning to its pre-WWII status, marked by a strong emphasis on pragmatic and technical issues. The apparent current "de-scientification", in this perspective, is a natural trend, an answer to the hypertrophy of the scientific establishment under the communist regime and to the change in social values.

Science has been – understandably - displaced by business. This is not necessary a drama. It should be, rather, considered as an adjustment to reality.

The Bulgarian economic policy agenda is basically unchanged during the past century. It could be summarized by two dominant topics – how to stabilize and how to enforce delayed reforms. Those are the issues where the bulk of economic research was done. It seems that sectoral market studies are lagging behind macroeconomics. More efforts are thus expected be directed in the sophistication of those areas.

Finally, history is a continuum and critical rethinking of the pre-communist past is of foremost importance. The goal, however, should not be so much to build bridges to past intellectual traditions. The really challenging exercise is to try to reconstruct core economic mentalities, to identify (and overcome) recurring national behavioural patterns, theoretical and institutional bias that reappear spontaneously and perseveringly during the "second birth" of capitalism in transition countries.

A particularly interesting topic is the identification of the ***national sources of intellectual influence***. Why Bulgarian economic elites (including the scientific community) demonstrate a clear propensity to absorb some national influences (or schools of thought) while rejecting others? Different sensitivities to differing cultural patterns is a specific reflection of core values and attitudes that have molded important identity patterns of Bulgarian economic life. Let add that – in line with its "epigone" mentality - Bulgarian official science excels in reproducing doctrinal *cliches* of the economic "metropolis". Cohorts of economists regularly produced dogmatic texts along the German (pre-war) or Soviet (post-war) doctrine.

Overall, the predominant intellectual influence in pre-World War II Bulgaria was German and French. This trend could be corroborated by the educational background of important segments of the elite. A significant sample, for instance, is the "universe" of pre-WWII Bulgarian National Bank's Governors. Out of 17 Governors (up to 1949) 3 have obtained their degree in Russia, 3 in France, 3 in Switzerland (Geneva), 3 in Germany, 2 in Belgium, 1 in Austria and (symptomatically) only 1 in UK and 1 in Bulgaria. The prominence of the French - Germanic-Russian realm is striking**.**

The academic *milieu* was deeply influenced by German-style economic thinking, while funding of the major University depended entirely from the State. This mix helps to explain why *academia* disseminated consistently etatiste ideology. The institutional background matches closely the Turkish one, as depicted by H. Berktay. [Halil Berktay, NEXUS Discussion] Both were characterized by an influence of the German Historical School, of the Prussian and Russian model of academic economic science. The main figures, here and there, were government paid professors.

An important role was played by the institutions involved in the enforcement of conditionality. Every institution (and country as well) has a definite profile that put an unmistakable stamp on its employees. France (the main financial counterpart of Bulgaria in early 1900s) produces good examples. The cupola of its decision-makers was traditionally composed by the amorphous *milieu* of the top bankers and civil servants. The transition between the two communities was easy, thanks to the traditional French practice of *pantouflage,* and the distinct corps of the *aristocratie republicaine*. What emerges from Bulgarian debt history in this respect, however, is that their relations have not always been smooth. It even seems that the preferred counterparts of French private bankers have not been their top national bureaucrats, but rather the mid-level. A clear distinction that could be traced from this story is that between "hard" and "mild" negotiators, the former coming predominantly from bondholders committees, the Ministry of finance, or from occupation authorities, and the latter typically from the Quai d'Orsay, or politics.

French citizens have exerted almost exclusively the conditionality monitoring in Bulgaria during the entire pre-WWII period. The presence of Geoges Bousquet, Marcel Charlot (as representatives of the bondholders) and Rene Charron, Jean Watteau and Pierre Cheysson (Commissioners of the LN) has been crucial for Bulgarian economic policy. A biographical and psychological approach to those personalities (focused on the time spent in Bulgaria) establishes many common profiles. Completed with observations on some other foreign players in the country, this approach could help to draw typical portraits and paths.

A comparison between outside monitors that have been involved in Bulgaria permits to better capture subtle national nuances. Although Britons never played a central role in the fieldwork, their influence in the back stage was of first order, namely in shaping the overall macroeconomic ideology of the League. It was strongly influenced by personalities like O. Niemeyer, who was perfectly aware of the Bulgarian debt affairs' details. It is also interesting to notice, that monitors from small countries were never considered as "autonomous" players. They were *a priori* (often wrongly) regarded as indirect representatives of the sphere of influence to which their country belongs.

The attitude towards prof. Nikolai Koestner – an Estonian expert appointed in 1932 as technical adviser in the BNB – is a highly illustrative example. [SAEF. B32.800] The appointment of Koestner came after the mentioned clash between France and Britain for the control over Bulgarian economic policy. France had to recognize that total control is not possible and that a form of compromise should be reached by finding a "politically neutral and technically adequate personality". Political neutrality, however, is always difficult to define. By his professional background Koestner was considered a vehicle of the Bank of England's influence. On the other side he was particularly suitable for his "experience at the issuing bank of an eminently agrarian country with a primitive civilization", as well as for his command of a Slavonic language. The solution came only after the case was put into the context of the regional balance of power. France accepted to cede this "downgraded" technical position, but to keep a firm control over the monetary policy in Romania – a country that was considered more important for the French interests. It is worth to note that in retrospect the controversy proved superfluous. Koestner exercised his duties with loyalty and professionalism for almost a decade.

In post-communist transition economy IFI have been the key channel of economic knowledge transfer. As a result, national specifics and affiliation with particular schools lost much of their importance.

The vehicles of influence - the players

Turning back to the definition of conditionality as a cultural shock, let us emphasize the role of conditionality enforcers. After the extremely pertinent term introduced by M. Flandreau, they are named *money doctors*.

Money doctors are the essential go-betweens in a two-ways cultural process. They operate in the no man's land between two different economic traditions and are best placed to capture those powerful feedbacks from the local culture that "corrupt" the orthodox *cliches*. The wiser among the advisers get the message and focused specific circumstances, not dogmatic principles. They shared a kind of conceptual humility (to stay on firm theoretical grounds, but taking into account the uniqueness of each particular case), discarded fashionable “financial esthetic” (J. Rueff), and tried to avoid the temptation to proceed too fast.

The Bulgarian experience of two outstanding figures produced remarkable insights in this respect. During his mission in Bulgaria, for instance, tha famous French economist Jacques Rueff realized that the the recipes for the “incredibly malthusian” local economy could not be those for the general case. He refused “to hamper the profit-maximazing automatism by introducing ***a priori*** considerations that are pure financial esthetic”. [Rueff. 1977. p.63]

From a different point of view, thinking on the conflict over the Bulgarian National Bank, a well-informed American observer expressed a severe judgement on the dogmatic blindness of the LN. His conclusion deserves the long quotation. “There is, to be sure, an important danger to be guarded against, the presence of which has been apparent, in some measure, in the League’s relations with Bulgaria. It is the temptation on the part of foreign specialists to proceed too fast, to become impatient with the slowness with which basic reforms must necessarily be introduced in a economically more or less backward community. The controversy between the Bulgarian Government and the Financial Committee of the League over the transformation of the Bulgarian National Bank is an instance of this. It is difficult to see what useful purpose could be served in insisting upon the reorganization of the Bank into a privately owned corporation, when it already had, after the reforms of 1926 and 1928, ample safeguards from government interference in the management of its affairs. The mere fact that a quasi-private corporation is the form toward which the banks of issue has been tending in economically better developed countries is a very poor argument in the case of Bulgaria. The FC of the League would probably have done much better if it had taken from the start a more moderate position in this particular instance by proposing, for example, an equally effective but intermediate form of organization of the type in existence in many European countries, namely a joint stock company with government participation.” [Pasvolsky, 1930. p. 296]

Pasvolsky’s lesson is still valid as a general principle, and still not widely learnt in the present transitional context. His lapidary verdict, however, remains a testimony of the enriching cultural clash between money doctors and host societies.

Beyond their professional functions money doctors’ are *individuals*. Thus a personal touch and human conflicts are inevitably introduced in the conditionality problem. Money doctors’ *personalia* is less chaotic than expected. Different paths could be followed in exploring the issue and the Bulgarian case indicates possible avenues.

Essentially *carieristic*, *business*, or *academic* interests – separately or simultaneously - seem to have motivated money doctors’ in the country.

While it is risky to generalize, it seems that a small country tends to attract end-career civil servants, or ambitious beginners. Professional fervor has been a dominant psychological trait for both profiles and, indeed, conditions in a peripheral country are propitious for a fulgurate career. The fact that the creditors’ representative is from a leading country enhances automatically his personal status. This partly explains the zeal, which has typically characterized monitors’ presence. Extremism is not only a sometimes-paying posture towards the debtor, it is a quality, praised by the hierarchical superiors as well. A guiding principle for foreign representatives has always been that it is better to have their ardor cooled by the home bank management than to be blamed by it for a mild position towards the debtor country.

In the era of the strongest “body conditionality” this personal factor had to be taken into account. There was often nothing more distorting than the manipulations of an outraged bureaucrat. In cases of tensions with local authorities or with his own headquarters the representative could metamorphose into a more or less autonomous player in the creditors-debtors game, able to bias any information and decision. The activity of G.Bousquet in Bulgaria (1902-1912) is an anthological case in this respect.

The academic or "theoretical" motivation is particularly well illustrated by the 1927 mission of Jacques Rueff in Bulgaria. He served as a LN officer for what could be called in today IFI jargon a "country mission" in Sofia, headed by Sir O. Niemeyer. As it stems clear from his memoirs, however, Rueff's goals went well beyond a simple bureaucratic exercise. According to his own account it is during these missions in Greece, Bulgaria and Portugal that he shaped the basis of the conceptual approach he applied, years later, for the 1958 stabilization of the Franc. [Rueff. 1977. p.63]

The business motivation was implicit in the commented "side" activities of the creditors' representatives in Bulgaria. Overlapping of business and economic policy judgements was institutionally built in the very composition of the League's FC, where eminent bankers formulated policy prescriptions for the country. This practice was only a particular case of the widespread inter-penetration between the financial community and money doctoring during the inter-war period. [St. Shuker, 2000]. It is highly symptomatic, that such a respected and academically reputable figure as E. Kemmerer has had a secret annual "commission" from Dillon, Read&Co. [St. Shuker, 2000, p.13]

The post-WWII reality has introduced some changes in the character of money doctors' motivation. It is the "regulation" of the profession that changed. The main trend was the intent to manage the numerous potential conflicts of interests. Today IFIs for example have domesticated the "theoretical" motivation by introducing a clear division of labor and by locating background research in well-defined institutional units. Specific rules have tried to restrict the area of conflicts between business motives and economic advice to Governments. The results are controversial, while subtler forms appear. Growing mobility between IFIs and the financial community has undermined the formal regulation of conflicts of interests. A widespread commercialization of macroeconomic reform packages has progressed together with post-communist transition.

The local counterpart - a bilateral learning process

The picture is in no ways complete if attention is paid only to foreigners. It has been rightly observed that external doctoring is always a bilateral learning process, involving the advisers' ***alter ego*** i.e. their counterpart local authorities and experts.[*]

Foreign advice is provided due to partial transfer of macroeconomic sovereignty abroad (explicit in the loan contracts), or to the need to enhance policy credibility by importing supposedly "higher" foreign competence. The lack of technical expertise in Bulgaria has not been the major problem, at least in the more mature stages of the county's pre-communist history. The economic *elite* gradually gained know-how, partly through training abroad. By the early 1930s economic and financial analysis was of good quality, at least in the field of sectoral studies. A problem was rather the character of conceptual insight and the interface between expert knowledge and economic policy. This interface was never easy, nor successful. The *socium* biased expert advice (be it from local or foreign sources) and generated its own, hybrid responses. The agents of foreign

[*] Rich archival evidence is available in this respect. It is a chance that the chief Bulgarian foreign debt negotiator from 1919 to 1939 has been the unmoveable Nikola Stoyanov – an extremely rare case of expert longevity in the national administration. He left an extraordinarily well organised personal archive that is a first-order source for Bulgarian debt history.

conditionality were powerful enough to design the frame of the needed reforms, but never in a position to implement them smoothly and to obtain relatively “pure” and coherent social forms and institutions.

At the junction of foreign conditionality with local policy stays the key figure of “the IFI’s man” in the host country. He is typically the privileged interlocutor of foreign money doctors, the main vehicle of their messages, and the translator of the confronting positions to a common conceptual language.

Almost by default this function was fulfilled by the Governor of the National Bank, or (to a less extent) by the Minister of Finance that was, as a rule, more exposed to political pressures. A technocratic approach was essential in order to clean as much as possible the controversial issues from ideological or political *cliches*. The more successful Bulgarian negotiators have been professional bankers, converted (for a period) into civil servants, and/or positivist-minded experts. N.Stoyanov, for example had an educational background in mathematics and astronomy. The bargaining position of the country dramatically weakened when it was represented by unconvincing and unprepared political figures. (It was the case in the period of highest tensions in the negotiations with bondholders during the autumn of 1934). Beyond the personal level, most Governments facing foreign conditionality reproduced a typical split - reformist, technocratic minority in them opposed the majority of cabinet members that followed their populist instinct and political agenda.

To find the right counterpart to foreign money doctors has not always been an easy task in a relatively narrow “convertible” elite. A curious case occurred in 1934 when, for a while, the Bulgarian Minister of Finance even accepted that the FC “suggests any candidate deemed suitable [by the FC] for the vacant position of BNB Governor”! [SAEF. B 32.800]

Confrontation of numerous personal testimonies from both sides (creditors and debtors) permits to measure the scale of the “mentality divergence” that separates a mature from a peripheral economy. Putting aside the inherent conflicts between debtors and creditors, a residual gap remains between points of view, agendas, values and judgements.

IDENTIFYING FUTURE PATHS - THE GLOBALIZED CONTEXT AND THE EUROPEAN PERSPECTIVE

The current **global context** obviously undermines economic culture's identity (*differentia specifica)*. The dominant trend is the fading away of national specifics. Uniqueness becomes less important. Intellectual standardization is visible. It is apparent in the consecrated universality of economic science, but also (once more) in the universal use of English language, in the global virtual communication and in the unrestricted mobility.

A mirror trend of the intellectual convergence of the 1990s is conditionality convergence. Conditionality's national specific vanishes. A faceless, depersonalized and cosmopolite plethora of international bureaucrats, free lancers and private consultants performs the job of foreign advisers. Their institutional affiliation's diversity has grown impressively, ranging from NGOs to supranational structures. What irons out nuances is the extreme doctrinal standardization. (Differences appear when considering the possibilities to impose them.) The "politically correct" *cliches* are reproduced today by an infinite number of voices. Banalisation of the economic profession and easier communication produced as a side effect a banalisation of money doctors' cultural formatting and of money doctoring itself. The personality of the foreign adviser has lost social weight together with the tendency to standardize the problems and the prescribed cures for them. A widening gap between the promoted doctrine and the personal status of modern monitors is also noticeable. It is not so much (as in old times) their opulence in poor countries that irritates. It is often the fact that their personal status and institutional background seems closer to "extinct" socialist values (job security, fringe benefits) than to the preached labor flexibility and market principles.

The problems faced by foreign advisers during the Inter-war period were less trivial and required personally tailored intellectual effort. Current economic issues are, in turn, immediately "codified". Commercialization is widespread and a burgeoning consultancy-providing industry lives from the returns of large scale propagation and commercialization of standardized "conceptual" product (up to entire macroeconomic reform packages). The lack of marking personalities with a global vision (J.M. Keynes is the archetype) is remarkable albeit understandable in this context. Institutional building is not the strength of today mainstream economics. It is rather "markets building" through the mastering of sophisticated risk assessment and risk management instruments. Putting apart the inception of the Eurozone, great "economic engineering" projects are over. The ongoing discussion on the reshaping of the international financial architecture, for example, is stamped by a bureaucratic and "gray" approach where the room for theoretical creativity is extremely narrow. The essential point is the balance of forces between leading countries, achieved by careful distribution of top positions in the ever enlarging pool of key IFI.

The traditional conditionality's symbolic dimension was also undermined by globalization. Wars over symbols acquired a different - anti-globalist or Eurosceptic – flavor. For EU-candidate countries the new identity symbols often acquire irrational aspects. The disproportionate, manipulated and non-informed attention of the Bulgarian public opinion to the EC "verdict" on the "existence" of a "functioning market economy", or the debate on Kozloduy nuclear power plant are fresh examples. The insignificance of those symbols is immediately realized if they are compared to the tremendous symbolic significance of the Euro: European countries abandoned national currencies that for centuries have been the foremost symbols of economic identity.

Intellectual patterns that uniform conditionality enhance the strongest force at work. Financial markets have been the most powerful catalysts of a standardized conditionality approach. During the last two decades they have produced instruments, criteria, indicators and mechanisms that forcefully induce similar policy reactions. The fears of financial contagion have obliged very different countries to react in the same way to possible (or actual) threats. The markets impose more efficiently (and informally) the discipline pursued by IFI. In fact, IFI conditionality mimicries the market's one.

In mid-term perspective Bulgaria is going to shift gradually from the area of influence of the IMF to that of the EU. The center of gravity of this process is the European monetary union. With a currency board in place Bulgaria is well placed to meet the economic and the institutional criteria for this step. At the same time the country will be more directly exposed to the financial markets. Both processes are conflicting in many points. The outcome will be a new and original blend of conditionality culture.

The EU-style conditionality is overwhelmingly bureaucratized and the ongoing "harmonization process" is a clash of bureaucracies. Its context is much broader compared to traditional creditors' conditionality. In fact, the accession monitoring performed by the European Commission has a clear underlying "missionary" philosophy. The ultimate goal is enormously ambitious, focusing on the very cultural roots of the acceding society. More importantly – the "receiving" Union is changing its own rules and identity together with the accession of the new entrants. This is a challenging exercise, entailing numerous risks for both sides.

Although globalization deeply reshapes, it does not eradicate, economic identity. Diversity and nuances remain, displayed on a different screen. The relevant "units" are vaguer and the prominent perspective in a global world is more and more, the regional one. Identity is revealed, in particular, in the conflicts between a "universally" enforced conditionality and local reality: the inventory of those clashes produces a distinct identity's map. Peculiarities, psychology, traditions, history and institutions still matter.

Keeping the assumption of cultural cleavages, two "corner" scenarios in the *EU accession perspective* are delineated.[*]

The *isolation* (*enclave*) variant realizes M.Todorova's metaphor of the Balkans as incomplete Europe, as a realm that continues to be what Europe is not, or ceased to be. Even inside the enlarged EU, the "West" would continue to repress what is explicit in the Balkans. According to this scenario the enlarged EU will reproduce (in a different format) the pre-communist and the current three-dimensional Europe (West/Center/East[†]) with its cultural differences. The "old" Europe is preparing itself for such a "self-protecting" model. The "double speed" architecture is a possible design. The changes foreseen for the governance of the enlarged European System of Central Banks or the ECOFIN-12 formula are of the same vein. In the extreme case the "new" Europe shall constitute enclaves of economic culture.

This ("apartheid") option is obviously a stylized one. It is situated in the strict "identity paradigm" that privileges uniqueness and differences.

The *converging scenario* is closer to the reality and departs from the narrow "identity approach". It is assumed that the coexistence of economic cultures in the future

[*] The two scenarios could be placed in the framework of V.Mihailescu's Autochtonist and Primitivist ideologies. [Vintila Mihailescu, NEXUS Project] In broad terms, the *isolation scenario* fits with an Autochtonist approach, while the *convergence scenario* corresponds to a Primitivist approach.

[†] The terms "East", "West", "Strong", and "Weak" are used as simple labels. They do not imply any normative judgment. The terms are substitutes of the widespread, commonly accepted stylized features of the corresponding cultural types.

EU shall start a lengthy rapprochement, accompanied by the well-known cultural problems - institutions *ex ante* (form without content), perseverance of old traditions, conflicts between the normative/real and the formal/informal realms.

Convergence, however, is the result of a two-way movement, of interpenetration, allowing for different equilibrium points. The effective encounter (outcome) will depend from the relative strength of the two "gravity forces" – the "weak" economic culture and the "strong" one.

The "ideal" model is that of a gradual infiltration of the "strong culture" in the new entrants' economy. This is the implicit assumption of the *acquis'* implementation. (The convergence culture embedded in the Euro project works in the same direction.) Experience of candidate countries proves, however, that this model cannot be realized smoothly. The adoption/implementation gap appears everywhere. Hybrid scenarios are to be expected.

There are, in fact, no *separate* (dichotomic) worlds - differences are located on a single cultural vector. The "easy" and the "informal" are universal attractors in economic life. Nobody (neither in the East, nor in the West) likes constraints. There is a "natural" instinct to distort (to circumvent) rules and conventions. "Gray" forms flourish beneath the "official" surface. They do not eliminate the superficial strata, but "subsume" and "infect" it. A ***Gresham's Law*‡ *in economic culture is at work: the "weak" culture does not devour the "strong", but the former certainly "corrupts" the latter.*** The degree of market maturity is precisely the degree of taming of this general instinct. Culture is taming. Expressive poetic symbols have captured this clash. Let us remember Konstantnos Kavafis' "Awaiting the Barbarians", or Sir Steven Runciman's verdict - "civilization always attracts Barbarians; they are the stronger and instead of integrating civilization they destroy it".

Spontaneous trends in the West produce perceptible features of "weak" economic culture. Networking, corruption, clientelism are not exclusive Eastern traits. The "ENRON culture" unveiled the widespread practice of wrong (criminal) corporate governance. This case is to be added to other emblematic precedents, such as the Credit Lyonnais debacle of the 1990s, or other recent financial crises. The correct perspective is not the "with (East) / without (West) corruption" dichotomy, but rather the blending of two different corruption cultures. The record of Italy's and Greece's membership in the EU is quite illuminating in this respect.

The ideological message emanating from the EU is also ambiguous. It is conventionally assumed that the expected convergence path is from more (East) to less (West) *etatisme.* The reality is that some markets (for instance the labor market or the agricultural sector) are less regulated in the East than in the West. Candidate countries will join a scrupulously monitored single market and an economic area where *etatisme* is sometimes stronger. For numerous Western businessmen economic freedom is located in the East, not in the overregulated European Union.

What would be each side's contribution to the new economic culture? J.Kovacs suggests a possible Eastern contribution - "rejuvenation" (a kind of "new blood") of the sclerotic Europe. [Kovacs 2002] The idea, he argues, is that h*omo sovieticus* had "informal capitalist traditions", ***grunders*** attitudes shaped during the "transition capitalism", informal habits were inherited from economic behavior under communism.

If this is an elegant, but controversial, hypothesis there are irrefutable facts. Let mention, for instance, the activities of the Eastern maffias and illegal workforce in EU

‡ A law formulated by Sir Thomas Gresham (1519-1579) according to which "bad (less worthy) money drives out good (worthy) money".

countries. The typical “contact-zones actors” (western investors and managers in candidate countries) are often of a special type - more risk-biased (prone), and attracted by “junk businesses”. They tend to adapt to worse local practices, while the long awaited transfer of advanced institutional know-how does not materialize. Finally, the outcome of large-scale “intellectual transfers” is far from convincing. The current Bulgarian Government is a live test. Its foreign-trained members on key economic positions did not produce a coherent market-oriented policy. They demonstrated a low-end “intellectual mix”, and frequent compromises with populist pressures and local etatiste traditions.

The future European profile of SEE is still unclear. Its economic identity will certainly be a *different* culture, not the sum of the Eastern and Western ones. Neat hegemony is not to be expected: the currently existing poles of “westerness” in the already fragmented (and changing) socio-cultural landscape of Europe will compete for the new entrants.

A side effect of this approach is that there is no place for “economics of transition”. There is, strictly speaking, no new theoretical knowledge produced in this field. “Transition economics” becomes simply the “economics of extremes” – of extreme cases of market economy, of market failures and of market distortions. Every transition problem is directly embedded in mainstream theory.

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