

WAS THE DEVELOPMENT OF CZECH ECONOMICS THOUGHT IN CZECHOSLOVAKIA UNUSUAL?

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Abstract

Teaching of national economy in Czechoslovakia was provided by students of A. Bráf. As a reaction to problems of A.Bráf's doctrine, teleological noetics and on this based teleological theory (established after 1913) were crystallized successively. It was an original theory. However, it has numerous common aspects with the neoclassical tradition, for example the economy selfregulation with full deployment of production sources, the Say's law of markets, separated real and monetary sector of economy, etc. These aspects of neoclassical tradition are subject of J.M. Keynes's criticism. Schools of thought are formed even against the teleological theory (institutionalism and others). The doctrine of J.M.Keynes was the most significant among them. Its most important representative was Josef Macek. Professor Macek was successful in connection of what seemed to be impossible in economic thought. The connection of Say's law of markets with the Keynes's doctrine of purchasing power effective demand. Macek's specific usage of Keynes's doctrine on the one hand and accuracy of overcoming of disputes and problems of Bráf's doctrine and approach to economic science in teleological noetics and teleological theory of Karel Engliš on the other hand resulted among others to the fact that the teleological theory as a theoretical basis broke through at the majority of universities and other institutions (the National Bank, financial administration and others).

Keywords:

National Economy Departments, Neoclassical Tradition, Economic Doctrine of Josef Macek, Teleological School of Karel Engliš, Doctrine of J. M. Keynes

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Introduction

The Marginal Revolution that occurred in the last third of the 19th century gave birth to schools of economic thought which in turn gave rise to neoclassical economics. The Great Depression of the 1930s contributed to the shift of economic thought from neoclassical tradition to Keynes' doctrine. Neoclassical economics was upstaged. The centre of economic policy, too, started to move from managed currency – championed by neoclassical economics – to product and employment management suggested by Keynes' work. The development of Czech economic thought was rather firmly rooted in neoclassical tradition.

The origin of Czech economic thought is often associated with Albín Bráf (alternatively with his colleague Josef Kaizl) and his students (Krameš 1999) see also (Krameš 2016). Economics started to be systematically developed in the Czech language, and both the quality and quantity of this scientific field experienced a dramatic growth compared to previous periods, reflecting the issues related to the development of Czech society (Krameš 2002).

Czech economists (i.e. Bráf and his students) based their understanding of the workings of economics on the notion of a self-regulating, automatic market mechanism which is able to re-establish the state of economic balance should economic relations become disrupted, and allow a full use of production resources. The goal of economic policy was to prevent the currency's purchasing power from fluctuating and to maintain its stability. This goal was supposed to be achieved by means of an active monetary and foreign exchange policy connected to a budgetary policy that would be aiming for a balanced national budget. After WWI, this system was disrupted. The instability of market economics was tied to the unstable purchasing power of money. No wonder, then, that likely each and every prominent Czech economist showed interest in the issues of monetary theory and policy, as well as in answering questions related to the issue of money's purchasing power. For example Mildschuh V. *Kupní síla peněz, výše důchodů a úroková míra, jich souvislost a příčiny určující jich změny* (1920), Čechrák C. *Problém stabilní měny. Měna a konjunktura* (1924), Zeman F. *Kvantitní teorie peněz* (1923), *Systematika a kritika kvantitní teorie peněz* (1924), *Moderní názor teorie hospodářské na otázku peněz* (1925), Horáček, C. *Důsledky zlaté měny*

(1895), *Úkoly bank cedulových* (1898), *Boj proti zlatu* (1925), Engliš, K. *Peníze* (1918) and more.

The founding of Czechoslovakia was followed by the establishment of Karel Engliš's original school of economic thought (Vencovský 1997, p. 194). This economic school was limited solely to the country of its origin. Karel Engliš's teleological theory gradually became a dominant and official economic theory, which had implications for the entire national economic policy. For example *Nástin národohospodářské noetiky*, (1916/17), *Základy teleologického myšlení* (1922). The theory owed its originality to the fact that it was based on economically specialized epistemology in order to address the issue of non-uniform approach to the concepts of economic theory (Krameš, 2011, p. 277).

Teleological theory is based on the Austrian School. Adopting some of its elements that follow in the footsteps of neoclassical tradition. Many theories proposed by the Austrian School, such as the theory of marginal utility or of opportunity costs, were incorporated into the "arsenal" of neoclassical economics; however, neoclassical economics differs from the Austrian School in several aspects, e.g. in the static approach to economic balance and its automatic renewal through flexible prices with full employment, a concept rejected by the proponents of the Austrian School. The approach was based on the economic teachings of Karel Engliš, albeit in the form of teleological theory, including a special interpretation of Say's law of markets. This had implications for economic policy whose goal was a stable purchasing power of money. Managed currency became the focus of economic policy.

Other movements and schools of economic thought (represented by e.g. V. Mildschuh, C. Čechrák et al.) were somewhat "overshadowed" when it came to their influence on education at individual universities, or to proposing measures with regards to economic policy.

The doctrine of John M. Keynes (1883–1946) started being applied not only to monetary policies (*Tract on Monetary Reform*, 1923; *Treatise on Money*, 1930) but also to the theory of employment (*The General Theory of Employment, Interest and Money*, 1936).

Proponents of other economic schools of thought found themselves standing in the background of discussion. The unusual characteristics of the development of economic

thought were related to Engliš's school which was associated with the neoclassical tradition of automatic renewal of economic balance with full employment.

This paper tries to characterize the unusual characteristics of the development of Czech economic thought. Findings on the spread of teleological theories to individual universities are based, among other things, on archival documents, mainly from Prague and Brno archives.

1 Say's law of markets. Savings and investments.

According to K. Engliš, national economy displays permanent propensity toward economic balance. It's a typical feature of "individualism", based on the competition among and within four markets – goods, money, work, and foreign exchange. K. Engliš states that if for example regulatory function of prices is disrupted by state interventions, i.e. by disrupting prices in equilibrium points where they would have become stable in case of free competition, the consequence always is a decrease in labour productivity. It's in accordance with free competition and automatic renewal of economic balance. State interventions can lead only to a decrease in labour productivity. According to K. Engliš, there's a firm link between the extent of financial capital, the extent of production and consumption, and the extent of employment. A certain rate of employment causes a certain rate of production, and certain rate of production requires a certain amount of capital. This relationship is maintained by a resultant of the capital market, interest, estate market, prices, and wages offered by the job market (Engliš, 1938a, p. 485). It resembles the idea of automatic renewal of economic balance with full employment. Thus, K. Engliš moves away from the Austrian School and in turn shifts towards neoclassical tradition.

Say's law of markets remains in effect due to the connection among four equilibrium points (mainly between the financial capital market and the goods market). A harmony between savings and investments is guaranteed by a flexible interest rate.

Money doesn't only have neutral value as a unit of measurement, but as a store of value is able to influence real economic processes. The champions of neoclassical economics base harmony between savings and investments, achieved by means of interest rate (Say's law of markets), on the shared motive of households and businesses to maximize the profit from consumption. Engliš's teachings explain the harmony between savings and investments using

Say's law of markets (Engliš 1938a, p. 282), (Engliš, 1938b, pp. 704, 705). Engliš constructs rules for the actions of economic entities by means of purpose sets. He views not only psychophysical entities, but unlike the Austrian School any organization in a broad spectre, and establishes formal rules for the economic actions of the entities and the relationships among them by focusing on categories such as market, wage, interest etc., moving from individual economies to the centre – types of government economic policies and foreign relationships (balance of payments, foreign exchange rate, etc.)

A decrease in consumer expenses leads to an increase in savings which in turn lower the interest rate on the market. This increases the profitability of investments, making the investment demand (real national savings) higher. If the saved income is treasured up, the acquired purchasing power will remain unutilized, causing the effects of deflation (Engliš, 1938b, p. 708).

Neoclassical economics was suitable mainly for a cooperative economy or an economy based on barter exchange see (Sojka, 2010, pp. 138 - 139), see also (Džbánková, Sirůček, 2008). Teleological theory happened official doctrine in Czechoslovakia. What was rather peculiar was the process of strengthening the teleological theory; this peculiarity consisted in maintaining the elements of neoclassical tradition which were based on the belief in automatic renewal and restoration of economic balance (with full employment).

In the Keynes' doctrine, the processes behind investments and savings are viewed as separate mechanisms. Savings depend on a household's income and serve as a function of regular income. Investments are dependent on the expected net yield as compared to the interest rate. If the expectations of businessmen are pessimistic (expected investment yields are low), businesses will prefer to hold onto their money to maintain their property over time and avert the risk of losing it which they would have faced if they had invested these financial means in production. A low incentive to make investments leads to an insufficiently effective demand. In that case, savings may start to exceed investments and (aggregate) expenses will be lower than the expenses that ensure full employment. J.M. Keynes used the term "marginal effectiveness of capital". Investment expenses are a function of the interest rate and marginal effectiveness of capital. The higher the marginal effectiveness of capital, the higher the tendency to make investments. Marginal effectiveness of capital is inversely proportional to

the company's capital facilities – the higher the company's capital facilities, the more does the insufficient motivation to make investments manifest itself.

Josef Macek (1887 - 1972), a professor at the University College of Business in Prague, was a chief proponent and disseminator of J. M. Keynes' teachings in the interwar Czechoslovakia. His opinions were in opposition to the views of Karel Engliš and his students. In the subsequent generation (for example Karel Maiwald, Jaroslav Nebesář, Miloš Stádník), this school of economic thought shifted the economic policy from managed currency to product and employment management. Josef Macek based his view of the workings of economy on "organizing human cooperation" among institutions and other economic entities. According to J. Macek, the workings of economy abide mainly by "price laws". In his view, price laws constitute by e.g. "Say's law of sales", the law of supply and demand, law of costs, etc. According to Macek, price laws are "the rules of human behaviour in the course of purchasing and selling or other market transactions" (Macek, 1946, p. 157).

Management by means of price laws was accompanied by government administration and legislative interventions, as well as direct regulations of relationships, exacted by the influence of social institutions. According to J. B. Say and classical economists, a general overproduction of goods can't occur as that would mean a general excess of demand for money. As per Say's identity, this isn't possible; only a structural defect is. J. Macek divides economy into two dominant sectors: a private, and a public one. During economic depressions, the private sector suffers from a decrease in sales as too many products have been made. Conversely, the public sector is a sector where too few products have been made. Say's law of markets was based on the idea of barter economy where products are exchanged for other products and money's sole function is that of an exchange intermediary. The state must offer more products and more incomes by means of public investments and contracts. In order to prevent sales in the private sector from decreasing, the relatively high amount of products made in it must be supplemented by a relatively high amount of products made in the public sector (Macek, 1946, p. 191).

According to Macek, Say's law of sales doesn't work automatically. Rather, it's a set of principles that dictate the actions of economic entities that, provided they follow Say's law, lead the economy towards prosperity and social justice. If the organization of human cooperation indeed does follow price laws as J. Macek claims, then society is brought to

wealth and social justice that benefit all. That means it functions properly. However, if the organization of human cooperation doesn't follow price laws, it doesn't function properly which results in e.g. an economic depression.

J. Macek incorporated J. M. Keynes' doctrine (the principle of effective demand) into his personal interpretation of Say's law of markets, and thus united two theories that used to seem mutually exclusive. In fact, Keynes based his explanation of the principle of effective demand directly on his criticism of Say's law of markets.

Harmony between savings and investments must be maintained in order to preserve a stable price level. The state influences the regulation of the interest rate by means of a monetary and interest policy, and affects investments by supporting public investments. In Czechoslovakia, the teleological theory gained a prominent place at universities and official institutions responsible for economic policy.

2 The dissemination of Karel Engliš' teleological theory

Teleological epistemology and the teleological theory were born at Czechoslovakia's Brno University of Technology. There, they were championed by prominent figures such as Karel Engliš, Jan Loevenstein, or František Zeman. The founding of the Masaryk University served as an additional impulse (Karel Engliš, Jan Loevenstein, Dobroslav Krejčí, František Zeman, Vladimír Vybral). Because the teleological theory was associated with the Masaryk University in Brno, it earned respect in the eyes of experts from other institutions – the Czechoslovak National Bank, parliament, etc., to name a few. Both universities became dominated exclusively by the teleological theory which expanded further to other universities and colleges throughout Czechoslovakia. After 1936, it spread to the Mendel University in Brno (František Zeman, Otakar Peterka). Universities in Brno became exclusively dominated by the teleological theory. The teleological theory was significantly involved in cultivating and teaching the science of economy at the Charles University in Prague, where it was championed by Karel Engliš (professor of national economy) and Jan Siblík (professor of financial science and law), as well as at the Comenius University in Bratislava where it was promoted by Imrich A. Karvaš (1903–1981). It's also represented at the University College of Business (Miloš Horna) and Czech Technical University in Prague (Alois Král), later spreading to such institutions as the Ministry of Finance (Engliš), Czechoslovak National

Bank (Karel Engliš, Miloš Horna, Alois Král), parliament, etc. After of 1948 the school came to an abrupt end due.

Keynes' doctrine were dominant at the University College of Business in Prague (Josef Macek) and partially represented at the Charles University (Karel Maiwald). The dissemination of the teleological theory was based, among other things, on the deep conviction held by the champions of Karel Engliš's school that the teaching was correct and the competing theories and approaches to economic theory (epistemology) were inferior in terms of their expert value. This was reflected in the limited tolerance showed to proponents of other schools of thought during various procedures, such as conferment procedures (Vladimír Vybral, Otakar Peterka), professorial proceedings, etc., and the manifest preference for representatives of Karel Engliš's teleological school. This was happening, for example, at the Masaryk University in Brno, Mendel University in Brno, or Brno University of Technology – the tendency towards assuming a single theory was manifesting itself. At other universities, shifts from other schools towards the teleological theory were typical – e.g., professor Jan Siblík (Charles University in Prague).

Conclusion

The unusualness of the development of Czech economic thought in Czechoslovakia lied in the strengthening of neoclassical tradition. In Czechoslovakia, neoclassical economics was based on the dissemination of teleological theory which influenced the teaching and cultivation of economics at most universities and colleges throughout Czechoslovakia. This process was happening at a time when the world was by contrast leaning towards Keynes' doctrine and the criticism of neoclassical economy and tradition was becoming louder.

A chief supporter and promoter of Keynes' doctrine in Czechoslovakia was Josef Macek, a professor at the University College of Business. Somewhat unusually, Josef Macek managed to incorporate Keynes' theory of effective demand into Say's law of markets – let's not forget that J. M. Keynes based his doctrine on criticizing Say's law of markets. A prominent shift towards Keynes' doctrine came only with the subsequent generation, represented by e.g. K. Maiwald, J. Nebesář and others.

The unusual characteristics of the development of Czech economic thought caused the national economy to oscillate between managed currency and product and employment management.

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