

THE BEGINNINGS OF THE INFLUENCE OF THE CZECHOSLOVAK ECONOMY STATE INTERVENTION

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Abstract

Character of state intervention in the economy of the Czechoslovak Republic. Fiscal and monetary policy in particular. Experience Czechoslovak politicians and economists from Austria-Hungary. The concept of influencing the economy of the state in economic policy concepts Alois Rašín, Karel Engliš, Josef Macek and other representatives of the Czech economic thought. Changing ideas about the nature of state intervention in the penetration of learning J. M. Keynes. Critical opinion conflicts among different economic schools of the nature of economic policy in the thirties of XX. century in Czechoslovakia. The role of fiscal and monetary policy in the thirties and the postwar period in Czechoslovakia. Development objectives and instruments of state intervention in the Czechoslovak economy based on the development of economic theory and the concept of the concept of economic policy. Reflection Engliš teleological school and reception theory of J. M. Keynes in learning Czech Keynesians in the concept of state intervention in the economy at the end of the thirties of XX. century and in the years after the war in 1948. Opinions Miloš Stádník on state intervention in the economy after the Second World War. Link economists Czechoslovakia for the present.

Keywords:

Monetary policy, Fiscal policy, Czechoslovak economy.

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Introduction

Opinions on the nature of state intervention in the Czechoslovak economy were developed, converted and depended on the tasks at hand and, depended on the theoretical concepts of the national economy (Vencovský, 2003). Opinions were marked by the experience of the economy of Austria-Hungary (Rašín, 1922). They were formed mainly within the teleological school. The impact on the concept of state intervention in the economy from the teachings of John Maynard Keynes (1883-1946) (Macek, 1935). In particular, the writings of the "Treatise

on Money" from 1930 and "The General Theory of Employment, Interest and Money" in 1936. Opinions on the state of the economy influence formed a harmonious unity.

The aim of paper is to capture and describe the main trends in the development of the concept of state influence on the Czechoslovak economy and to demonstrate its uniqueness in the Czechoslovak environment. States do not claim to have a complete, exhaustive and comprehensive analysis of the problem. The article uses some of the original sources of archival documentation from the archives of the National Bank, the National Museum Archive and the Archive of Charles University. It is based on the original writings representatives of the Czech national economy Bráf schools and representatives of Czech economic thought of the Czechoslovak Republic.

1 Experience of the influence of the functioning of the economy of the state of the Habsburg Empire

The influence of the state economy in the Habsburg monarchy supported by a long tradition that dates back to the Cameralism (Krameš, 2001., Krameš, 1997) . The impact on views on state intervention should be linked to the German Historical School and the related departmental socialism. Its focus has been the application of ethical standards in the economic and social practice. The central theme consisted of solving social issues. Its scientific outputs formed a monochrome treatment of partial problems without ever reaching generalization synthesis.

The Czech national economy of Bráf thought awareness among the German ethical-historical school on the synthesis of get obtaining an idea of state intervention which enables the improvement of society, without being forced to stand (with some exceptions) to intervene directly in the price mechanism, where free competition was built (Krameš, 1999). This approach gave optimism to the School of Bráf officials. The rules of personal and economic freedom, including free competition optimism were valued as a heritage carried from the Czech Republic to economists.

There was one experience that brought students to A. Bráfa Republic. Related to the splitting of representatives of the Czech national economy Bráfova at the school "metalheads" and nominalist. Conviction, which was based on metalism, was affected by the events in Austria in the years 1879 - 1892 (see the example Engliš 1913, p. 210 et seq). Splitting of the

Czech national economy Bráfova the school metalheads and nominalist, however, affected the 1905 edition of Georg Friedrich Knapp: *The State Theory of Money*. "It is well known that since the file Knapp" Die staatliche theorie des Geldes "originated in 1905 in the field of monetary theory two directions opposite to each other more or less sharply standing: metalism and nominalism" (see the example Posudek, 1922, Foliage 17). Nominalism are known examples K.Engliš, J. Macek, V. Mildschuh. Metalism stayed true example Jaroslav Preiss, William Pospíšil and more. Leaders Bráf School - Professor of Political Economy University of Prague Albin Bráf, Josef Gruber and Cyril Horáček - their convictions were among the metalheads. According to economists, who claimed to be of metalism, the gold standard system fulfills the role of guardian of the stable purchasing power of money. The conviction convinced not only economists but also the experience deep in the public mind. To explain the purchasing power of gold money was used by the Ricardo's quantity theory of money. According to this theory, the economy has as much gold money as it needs. If there were more of it, prices of goods would increase and goods would be imported (lower prices of imported goods) and gold will be exported as long as the amount of gold doesn't fall again in the country. The system works automatically (Engliš, 1903, p. 210). The state authority does not have to intervene in functioning of the economy.

However, the vast majority of the younger generation adhered to nominalism. If nonconvertible paper money is used, then if there is more of it than needed in circulation, it does not flow abroad and its devaluation and price level growth begin. The internal purchasing power of money is changing. An important relation between spending of money and a stability of purchasing power of money comes from here. The stability of purchasing power becomes a practical problem of the economy functioning, state integration to the economy and a subject of economic policy. (Engliš 1913, p. 211 et seq). The issues of changes of purchasing power of money became a basic subject of interest in the area of monetary theory of the Czech economic thinking in the period of the republic.

At the end of the 90s of 19th century, a currency of gold foreign exchange was introduced in Austria and functioned until the outbreak of the first world war. Banknotes were issued in a fixed parity to gold but they were not convertible for gold. In order to realize the effects of free competition in the economy, it was necessary to make the stability (both external and internal) of purchasing power of money a subject to state regulation. The experience of the practical functioning of the Austria-Hungarian bank regulation was very satisfactory from 1894 till the beginning of the war.

The importance of financial policies increased. The regulation of the purchasing power of money has also been (among other things) a subject of these. Financial policy, according to the ideas of contemporary economists, included monetary and budgetary policy, including the issue of the national debt. The aim of financial policy has become the keeping of stable purchasing power of money.

Both discount policy of a central bank and foreign exchange policy of a central bank were supposed to serve as a tool for achieving the goals. Austria-Hungarian Bank was responsible for this policy. The system worked very well. It was the second experience that the economists thought into the Republic.

2 State intervention and the influence of the theories of J. M. Keynes

The theories of the significant English economist John Maynard Keynes (1883-1946) and later the teaching of his successor (Nikolas Kaldor) had an influence to the concept of state interventions in Czechoslovakia (Sojka, 2006). His career and writings were well known to us. On the other hand, Keynes didn't miss the economic circumstances in the Czechoslovak economy. For example, he mentioned the policy of Alois Rašín as an example of a deflation policy in his *Treatise on money* (1930). Keynes advocated learning in heated discussions with followers of Keynes with representatives of the English teleological school.

J. M. Keynes originally belonged to a group of followers of the Cambridge pension version of quantity theory of money a conviction of the liberal and neo-classical economist. Two writings had influence on Czech economic thought and in particular on the concept of economic policy. *A Treatise on Money* (1930), *A Treatise on Money and The General Theory of Employment, Interest and Money* from 1936. If we were to answer the question, how the theories of J. M. Keynes influenced Czech economists, we could use an apt formulation of the famous Czech economist and statistician Miloš Stádník (1907 – 1977) "J. M. Keynes introduced into the problems of money and prices the aspects of income and expenses." (Stádník, 1946, p. 132). Stádník continues: "Treatise on Money and The General Theory discoveries require exploration of the dynamic structure. The national economy has been changed into the study of incomes and expenses ". (Stádník, 1946, p. 132 et seq).

The influence of Keynes's teachings were gradually undermined the belief that the aim of "financial policy" must be to stabilised the purchasing power of money that could be used for "free competition" (competition) with a market mechanism based on price mechanism.

This was in the 1920's the opinions and positions of Keynes and Czech economists alike. In *Treatise on Money* (1930) Keynes disrupted idea of the price mechanism that balances the market economy by saving and investment are mutually independent. The concept of automatic been struck modern market economy into a state of equilibrium has been disturbed. The market economy is inherently unstable and needed government intervention. namely that there is no automatic link between savings and investments ... (Stádník, 1946, sheet 133/4). For example, the theories of K.Engliš in market economics and the four scales, that balance four markets into balance. The national economy has a permanent tendency to equilibrium. (Engliš, 1938).

It should be noted that also Engliš' teleological school worked with government interventions, but they were of a different nature. Engliš was convinced of the internal stability of the market system, even if it is necessary, first, to respect the stability condition of purchasing power of money government intervention and its teachings also added, inter alia, the concept of a range of flexible economic numbers and the number of inelastic Non economic figures. The centre must affect many inflexible economic numbers as it was free competition, where these prices were flexible. Therefore Engliš placed much emphasis on the knowledge of the functioning of the free market and in particular its implications. Still in terms of a 'neoclassical economist "and liberal, hi was disturbed by other rigid elements in the economy.

Keynes gained further adherents in Czech economic thought (Macek, Nebesář, Maiwald, Halbhuber, Jankovský, Kadlec, Stádník and others). Among them, particularly with the Engliš teleological school (Engliš, Král, Vybrál, Chytil, etc.) remained very strong controversy regarding monetary theory and monetary policy, and other topics of economic theory and economic policy (Půlpán, 2000).

After the war, has adopted a policy of open-market operations that directly meet or drain bank reserves and thereby expand or restrict credit. In the U.S., the policy on the open market was launched in spring 1922 and mainly in April 1923. Keynes: the discount rate affects short-term interest rates and open-market operations, then the long-term interest rates. The treatise was tempered by example the role of the discount policy (then one of the most important tools of monetary policy), the stability of the purchasing power of money. One concept of the discount policy, which dominated the nineteenth century was the increase in discount rate would lead to a reduction in requests for discounts on the central bank to reduce the money supply and the price level would increase. The second meaning of the

discount policy (general financiers and bankers in the twentieth century) was that the rate is a means of protecting gold reserves by controlling the international monetary market a higher discount rate to attract foreign capital inflows. This will improve the balance of payments, which loses gold (Schmidt, 1936, p. 237). The first theory of higher discounts will reduce credit, according to the second increase in gold reserves and it will lead to the extension of credit base and thus increase credit. (Schmidt, 1936, p. 237). Keynes does not agree with either theory, and recognizes only that the discount rate affects the rate and magnitude of production of capital goods. Keynes inspired Wicksel's theory of the natural rate of interest. (Král, 1936). Englis' supporters will not discuss for lack of space. Recall that he was disturbed by another of the pillars, which had insured the stability of the purchasing power of money, and Bráf pupils who brought the experience of the economy of Austria-Hungary. Keynes in the Treatise still supported the view that it is necessary to maintain stable purchasing power of money, while still looking for the functions of money in the economic cycle and the need to abandon their neutrality.

The General Theory of Employment, Interest and Money had extraordinary influence. Theories about the lack of effective demand, instability of investment, it shattered the self-limiting beliefs about the capabilities of a modern market economy. The economic analysis is applied mainly through an income-expenditure approach and is used in economic statistics and economic policy. The consciousness of Czech economists influenced other economists: Wiliam Beveridge, Nicholas Kaldor, who were of Keynes economic thought, developed and followed. Despite the escalating controversy between supporters and opponents (especially the leaders the teleological school). Keynes's gained ground land.

This was demonstrated (among other things) in particular the shift from a policy of maintaining the stability of the purchasing power of money to a policy of full employment and the shift of focus from monetary policy to fiscal policy, shifting from currency management for the stability of the purchasing power of money management and retirement product to full employment. It was the support and stimulation of public expenditure (investment and operations on the open market) and stimulate private spending mainly through fiscal policy (increase in tax progression when draining cash flow, which means leakage of current expenditure and a reduction in indirect taxes as a means of stimulating / autonomous / consumer spending with multiplier effects (For further details see Stádník, 1946, p. 28 et seq).

3 Influence of the Czechoslovak economy State interference between the wars

The axis of steering the economy or conditions of a smooth functioning economy was based on free competition with a tendency to total output produced with the production of a fully recovered resources policy was focused on the purchasing power of money. The leading lights responsible for this financial policy were Alois Rašín, Karel Engliš and Karel Trapl. Policies controlled the currency and the purchasing power of money in Rašín's deflationary policy in the early 1920's. Its aim was to increase (internal and external) purchasing power of the Czech crown to pre-war levels. The reform included the necessary separation of the circulation of money in Czechoslovakia from the circulation of money in the other successor states of the Habsburg monarchy, including institutional arrangements of the system (main proponents Rašín, Horáček, Preiss). It should be noted that the cost Rašín's deflationary policies, the decline in employment (unemployment) and foreign trade. Keynes stated this policy in his *Treatise on Money* (1930) as an example of deflationary policies with those costs.

Currency control stabilization policies also include the purchasing power of money. It has been assumed to be production and employment at full utilization of productive resources. The policy was the 1929 transition to crown-the gold exchange decommitment foreign exchange management (Cyril Horáček successor A. Rašín in the Ministry of Finance). It was meant to keep the exchange rate at the gold parity point exchange rate against the dollar. The union of the gold crowns still preceded in 1927 by ordering the state budget on the basis of the teleological theory of Karel Engliš. However, the goal remains the budgetary balance. After inception, a number of changes occurred as a retreat of the importance of trade bills and less weight to the discount policy, etc. open economy supply problem (short-term) money. After the impact of the effects of the Great Depression on Czechoslovakia joined them still further as inflexible prices, outflow (domestic and foreign) capital, which reduced coverage. The result was an increase in interest rates with pessimistic expectations and the number of bankruptcies of borrowers. The whole banking system was jeopardy. Restrictions on foreign trade, deflation and expectations associated with an increase in the debt burden as the remnants of borrowers in Czechoslovakia had been organized by private enterprise rather than a loan based on equity (one of the main reasons for the tax burden on equity). It needed to annual

interest and repayment of the principal and its impact on the purchasing power of money. The total debt service amounted to around 2 billion CZK. The burden on the budget for each year ranged around 7-9 billion CZK. Debt amounted in 1931 to - 36 CZK 964 billion in 1947 and then 46 CZK 784 billion. The increase in the national debt was around 10 billion CZK.

1931 - A 5% state investment loan was issued to cover the investment costs of CAA (State Railways). 1,300 million loan work in 1933 (CZK 2 billion) and loans to defense were CZK 3.6 billion. In 1932 the French agreed a loan of 600 billion fr. francs at 5%. The internal state debt increased between 1931 - 1937 by about 11 566 million CZK. 72 + Foreign. The national debt grew by CZK 12,360 million. 72 The distribution of ideas on the need for currency management in order to achieve and maintain stable purchasing power of money as a precondition for self-regulation of the market economy was based on the price mechanism of free competition escalated in the primacy of fiscal policy used for product management in order to achieve full employment. In these changing conditions, a policy should be implemented to maintain the stability of the purchasing power of money and how to understand it, as in the U.S. open-market operations use since the spring of 1922. The CSR was the instrument of monetary policy in dispute between the representatives of Engliš' teleological school and followers of Keynes's thought. The teleological school gained the upper hand not only at Czech universities, but also in public institutions of economic life. Open-market operations were rejected, and their task was substituted by the operations of the newly established Czechoslovak Rediscount and Lombard Institute. First of all, the economists of Engliš' teleological school considered this sufficient compensation. The followers of Keynes's doctrine as insufficient.

The union of considered crowns of gold opened grounds for controversy. For example, some former pupils (Engliš, Mildschuh) found themselves in dispute with their teacher prof. Horáček. They saw in this connection especially the weakening of monetary policy.

To maintain the purchasing power of money was selected the deflationary path. Reducing levels of flexible economic figures had to be cut simultaneously and inflexible economic figures (inflexible prices and incomes) through administrative measures. The budget was also reduced national income to sustain the trend towards a balanced budget. The deflationary path was accompanied by a decrease of the product, increasing unemployment and a decline in exports.

After detachment of Sterling (1931) and the Dollar (1933) from the gold standard and the devaluation and the fall of the French franc (1936) the deflationary path had to be abandoned and replaced by route (double) devaluation (in 1934 and 1936). Czechoslovakia had to follow the example of the economic powers. The path of devaluation led to great controversy. Path devaluation unlike the deflationary path represented a reduction in the purchasing power of the monetary unit, while the economic numbers do not change and thus restore the stability of the purchasing power of money. The first devaluation in particular, reduced external purchasing power and stabilized it. Soon after, devaluation managed to stop deflation in the internal market and to stabilise the internal purchasing power of money.

An important concession to current views at the time, the policy of support for public investment was seen as a means of combating unemployment (see, eg, Macek, 1935, pp. 68 et seq.)

Conclusion

With the positive experience of the functioning of the economy of Austria-Hungary since the late 1890's to the First World War, representatives of Czech economic thought had the idea that using the discount policy and foreign exchange policy is to maintain a stable purchasing power of money and thus create favorable conditions for the operation of free competition with automatic maintenance of the product with full utilization of productive resources. As a tool of the economy, influencing the direction. It served as a "financial policy" (ie, according to contemporary views monetary and fiscal policy, including the national debt). Due to the Great Depression and the influence of the teachings of J. M. Keynes's ideas with their groundbreaking influence on the economy, there is a transition from monetary policy to fiscal policy a transition from objective stable purchasing power of money to the new objectives (full employment) and a transition from currency management to product management to achieve full employment.

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