

## IMRICH KARVAŠ

Ing. Marián Tkáč, PhD.

*Professor Imrich Karvaš is certainly the most recognized Slovak economist, although this statement has a small defect: At least one to two generations of Slovak economists had no chance to even hear about him. While stating this, it is certainly impossible to expect that Karvaš will gain great recognition on the world scene, although he had all the preconditions for this. For example, he was invited to lecture on economics at Prague University after the death of Prof. Engliš, but the circumstances leading to the Second World War prevented him, and so instead of theory he developed practice in the framework of the Slovak Republic of 1939 – 1944. He studied in Paris and Strasbourg, lectured at the Sorbonne in France,*



*in Switzerland, Germany and England. He spent several months on a lecture and study visit to the USA and Canada. He was a member of many scientific societies at home and abroad.*

*He can undoubtedly be described as an outstanding personality in financial and monetary theory and practice, with significance reaching beyond his national context. In spite of this, the life of Karvaš con-*

*firms that the fates of important Slovak personalities are underservedly cruel and clouded. Karvaš spent almost the whole second half of his 78 years of life in retirement and in the shadow of senseless suspicions. He had no chance to continue using his gifts and abilities. They judged, tried and sentenced him.*

### **The most important dates in the life of the national economist, teacher, theorist and lawyer Prof. Imrich Karvaš:**

*He was born on 25th February 1903 at Varšany, now Kalinčiakovo-Levice, as the son of a notary. He spent his childhood in Pukanec from 1906 and Holíč from 1910.*

**1925** – He graduated from the Faculty of Law of Comenius University in Bratislava.

**1926/1927** – He studied at the universities of Paris and Strasbourg.

**1930** – Senior lecturer (docent) in law; 1930 – 1933 secretary of the Union of Slovak Banks.

**1932 – 1938** – General secretary of the National Economic Institute of Slovakia and Sub-Carpathian Ruthenia and vice-president of the Export Institute in Prague.

**1934** – Extraordinary professor.

**1936** – Joint organizer of the Congress of the Young Slovak Generation at Trenčianske Teplice.

**1938** – Minister without portfolio in the government of General Syrový.

From **April 1939** – Governor of the Slovak National Bank.

**1940** – Full professor of national economics at the Slovak (now Comenius) University in Bratislava, co-founder of the Commercial College, forerunner of the Economic University.

Karvaš's key work is *Základy hospodárskej vedy* (The Basics of the Economic Science), which we could call a „Bible“ of economics. He expressed the following view on this work: „It originated on the basis of experience from my 16 years of teaching at the Faculty of Law and

**1942 – 1944** – Chairman of the Supreme Supply Office. **September 1944** – Arrested by the Gestapo and sentenced to death in February 1945.

**1946** – Verdict of the National Court: „Economic figures such as Prof. Karvaš did everything they could in favour of Slovakia and used all possibilities to defend Slovakia. The Slovak National Bank acted bravely in solving monetary and economic problems and uncompromisingly confronting all attacks directed towards impoverishing the Slovak people“.

**1947** – Comprehensive work: *Základy hospodárskej vedy* (The Basics of the Economic Science) (second edition published 1999).

**1947 – 1949** – Dean and pro-dean of the Faculty of Law.

**May 1949** – Arrested, tried in Brno and sentenced to two years for an „unspecified criminal act“.

**1953** – In the framework of „Action B“ his whole family was moved from Bratislava to Tatranská Lomnica.

**1958** – Sentenced to 17 years for „espionage and treason“.

After **1960** – Gradually rehabilitated.

**1974 – 1978** – He wrote memoirs: *V pazúroch gestapa* (In the Clutches of the Gestapo).

**20th February 1981** – He died in Bratislava, almost completely blind, of a third heart attack.

the experience I gained from my economic policy activity... The character of the work – it is especially a textbook – clearly results in some degree of eclecticism.“ However, this also means that it is a really encyclopedic work.



Karvaš's advantage was that he was both a theorist and a person with practical experience. When developing theories he could start from experience of real political and economic development, and seek answers to questions and solutions to problems brought by this development. Then he could try to use them in practice in directing the national economy.

Karvaš's theory and clearly also practice stood on pillars, which can be named as teleology, the social principle and the role of the state in economics, monetary stability, regionalism and above all ethics in economics. We could satisfactorily call it a theory of equilibrium, for which Karvaš strove with all these pillars.

### Teleology – Seeing round the Corner?

Karvaš mentions three possible “scientific methods of observation”: the causal, final and normative methods. He inclines to the final method, which he defines as follows: “Certain phenomena, this relates especially to events or changes, can be observed as wanted phenomena. We seek an answer not to the question of why something is as it is, but why it is wanted. We see the whole external world either from the point of view of consideration of means (what is wanted) or from the point of consideration of aims (why it is wanted). We call this method of observation final (teleological) observation.”

In Karvaš's theory, everything “wanted” is wanted so that human life and economic activity helpful to it can be carried on in balance. Perhaps precisely this approach of researching why things are wanted led to his ability to see things in their possible dynamic and perspective, in their resulting logic and movement. Teleological “seeing round the corner” helped him to be ahead of his time in some questions, although he essentially only shifted the developmental line of known things into the more distant future.

For example, he inclined to the division of stages of economic development according to Karl Bücher (1847-1930), which denied the importance of the market and the basis for the division of economic stages for him was the distance goods travel from the producer to the consumer. Bücher identified three stages: 1. The closed household economy. 2. The city economy. 3. The national economy. Karvaš entirely logically extended this division: 4. The economy of large spaces. 5. The global economy.

In this spirit, he was able to predict economic integration at a time when this process had not even started (1947). Karvaš already observed that it was necessary to expect the formation of supranational organizational units. He declared and supported the idea of the unification of the Central European nations. He expressed support for the Pan-European Union and supported

Hodža's project for a Union of Central European nations, as a basis for the future unification of Europe. Karvaš knew also after the experiences of the years 1939-1945 that the economy of a small state will not stand up to autarchic approaches. Therefore he thought that the road to Europe for the small states of Central Europe would lead through their economic cooperation.

In spite of this, he attributed great importance to the internal strength of an economy and in its framework also internal “economic self-defence”. He explained that shocks from outside will have less impact within an economy if its internal economic life is firmer and more consolidated.

### Economics and ethics

Humanity and moral feelings appear in the works of Imrich Karvaš as a unifying thread. It is not usual for people like Karvaš, who combine economic theory with practice, to make such a significant emphasis on the ethical point of view – one of the central points of their theoretical and practical efforts.

The message of Karvaš is unambiguous: “Every human society is organized and lives according to certain moral principles. The content of these principles depends on the period and the maturity of the society. Therefore, it is clear that the economic world, as a product of social life, must also have its ethical principles, which must conform to the generally valid moral world”, and further: “Ethics are even more important in practical economic life than in other sectors of social life.”

Karvaš is convinced that apart from pursuing their own egoistic interests, which is more or less the basis of economic activity, individuals must realize that their activity and economic behaviour has to be in harmony with the interests of the whole to which they belong: “The value of the individual from the point of view of society, is determined by the degree of his contribution not to his own, but to the well-being of the whole. The full development of the abilities of the individual in this framework will also be in the interests of the whole.” Karvaš regards cultural maturity as the basis for the application of morality in economic matters. If it has a higher level, we can expect more that “individuals will contribute to the harmonization of these two mutually complementary spheres. The more morally mature an individual is, the greater the understanding he will have for economic coexistence, for the economic interests of his fellow citizens and for the economic development of the state.” Although a satisfactorily functioning economic system assumes that the participants in economic processes “have the moral strength to suppress exaggerated and objectively unacceptable egocentric interests” no economic system “can rely only on this moral strength



based on good will.” According to Karvaš: “control as well as coercive measures are essential conditions for the achievement of state interests.”

Karvaš’s considerations of ethics in economics do not end here. “The exponent of economic policy supervising a certain sector of the economy or directing it by active intervention cannot have any personal relationship to business or other economic units.” This is the basis of his imperative, according to which “confidence in objective decision making from the point of view of the central objective aim cannot be shaken by anything” and further “state employees must have sufficient moral and expert quality, they must also be economically independent.”

To ensure that state employees, who represent organs of the economic policy of the state towards all entities in the economy, are really economically independent, Karvaš demands that they should receive adequate material rewards. Economy in this direction is not the most important criterion of rationality, since in the event that the state allows or tolerates the possibility of secondary incomes for its employees, it reduces the effectiveness of their official work.” Karvaš is uncompromising in this, and perhaps he knows very well why: “It is not important whether it is secondary employment, advisory activity or membership of statutory organs and businesses. The ethical demand for impartiality and objectivity of the economic policy authorities of the state administration does not allow either one or the other.”

Karvaš not only “prescribed” moral postulates, he also observed them. He was a humane man, a democrat. After the valuable possessions of Jews, especially jewellery, were confiscated, he did not agree that they should follow the German example and use these possessions to obtain foreign currency. He justified this with the argument that if Slovakia turned this jewellery into cash in Switzerland, it would suffer great harm from “loss of trust in commercial morality”.

### **Social feeling and the role of the state in the economy**

His last and basic work was written soon after the Second World War, and this naturally marked some of his formulations, for example, the view that “with the development of society, the solution of social questions became one of the main roles of the state.” Present-day liberal theorists and practical people might not agree, but after the war, states took various kinds of business into their own administration or under strong supervision “for reasons of public interest. “Taking over the operation of means of transport, the construction of water works, the direction of public service enterprises, state support for cooperation between businesses, strong

support for cooperatives, public control over finance, a high level of progressiveness in taxation, setting of minimum wages, introduction of family allowances, protection of collective agreements... state intervention in planning and regulation are only some examples of developments” states Karvaš, and he adds that “these adjustments modify the individualist economic system”.

As we know, periods and views on the role of the state in the economy alternate in economic practice and theory. After the Conservative government of Margaret Thatcher came to power in Great Britain in spring 1979, the country where the Keynesian theory originated turned away from it, and the rest of the world followed. The main aim of economic policy is no longer full employment, state interventionism has been limited and state ownership reduced. The privatization of state enterprises and the associated reduction in the number of their employees as well as turning away from the views and convictions of Professor Karvaš and others are important features of recent times.

According to Karvaš, the modern state should not secure only political freedom and equality. He understands that differences between people are difficult to remove, but it is “possible to prevent these differences leading to the formation of legally or economically powerful social classes... Just as the state prevents murder and theft, it must also prevent the misuse of the economically weaker or their exclusion from the possibility of social and economic growth.”

If Karvaš is a definite supporter of the regulative interventions of the state in the economy, this appears to be a result of his views on the problems of the 1930s in Czechoslovakia. Karvaš distinguishes economic individualism, with private property, free agreements and free competition placed among its basic principles and he states that their observance is enough to ensure economic individualism, even when “solidaristic influences” are strong, from direction of the economic sphere in the interest of the whole, so that the logical result is that “the subjective economic sphere of the person is defined or precisely determined and not left to the influence of accidental forces”.

It is obvious to Karvaš that economic individualism and liberal democracy must lead to the strengthening of economic inequality with all its social and political consequences. He critically states that on one side they create the above mentioned equality and freedom in the area of political rights, but they also produce “politically protected and confirmed economic inequality”, which must inevitably lead to conflicts “about the existence or non-existence of classic individualism in the economy, often described as economic liberalism and liberal democracy in the political area”.

Karvaš finds that “economic liberalism enabled uni-



imagined development, but also produced forces, which attempted to modify, limit or remove the principles of liberalism". This development had to lead to state interventionism and raises the question of whether classic economic liberalism is the right system, since it conceals the seeds of its own destruction.

Development has moved on since the time when Karvaš thought and acted, but his conclusions that "the political equalization of individuals was not accompanied by their economic equalization" cannot be doubted.

The influence of the state on the economy may be manifested in different ways. For classical liberalism, the state is an institution with the role of defending private property and guaranteeing free competition. It also has the possibility to collect tax. These functions placed the state in the role of "night watchman" (Lasalle). However, the main representatives of liberalism recognized the need for wider activity of the state in the area of directing, and essentially in three cases: 1. When it is necessary to protect the economically weaker against the expansiveness of the economically stronger. 2. When the consumer cannot defend his interests. 3. In the case of enterprises not performed on private initiative, either because of excessive extent or lack of profitability.

At the time Karvaš wrote his outstanding work the intervention of the public hand of the state to remove unjust property and social differences "as far as possible" was really proved to be necessary. Although today views about the "invisible hand of the market" and the "robbing hand of the state" prevail, Karvaš also saw another reason for the engagement of the state in the economy apart from the removal of inequality: stimulating further industrial development.

Karvaš spoke of a directed economy when the state excludes private enterprise, free contracts or free competition in a certain sector of the economy and is satisfied only with direction in other areas. Direction or regulation means the replacement of private enterprise and private initiative with the direct or indirect direction from the authorities. The existence of a plan is not decisive for a planned economy. According to Karvaš, plans occur in all organizational forms. It is a planned economy if economic activity is not the result of the considerations of individuals, but flows from a central plan worked out in advance with objective aims to the smallest details. The individual has no free economic activity, he is only a means for achieving the aim. Private enterprise, free contract and free competition are entirely excluded. Karvaš is certainly not in favour of such real socialist activity of the state.

According to Karvaš, state interventions not reaching the level of a planned economy have three forms: 1. State intervention in production techniques in favour of the social interests of employees. 2. Stimulation of busi-

ness by direct or indirect instruments such as state guarantees on investment loans, guaranteed profits, freedom from tax and charges, advantageous railway and customs tariffs, special subsidizing of business with raw or partly processed materials, which are applied especially in periods of economic depression. 3. Independent state enterprise is considered obvious with the state building railways, hydrocentres, canals and making rivers navigable.

The following objections to state enterprise are given by Karvaš: 1. The management of enterprises is rigid and inflexible. 2. The leadership of enterprises is bureaucratic. 3. The state enterprise has higher production costs and so is a break in price policy. It has a privilege in public deliveries. 4. The state enterprise does not act economically, since its losses are covered from taxes.

### **Karvaš's monetary theory and monetary practice**

The monetary problem was naturally in the foreground of Professor Karvaš's attention. He did not hide his view that monetary problems are inevitably in the centre of the attention of the national economist, since "monetary phenomena with their complexity affect all areas of economic life" and "devaluation of the monetary unit changes the whole economic organism."

He saw the causes of inflation in the 1920s above all in the post-war budget deficits and in their coverage with short-term treasury bills, which created new purchasing power. The route to stabilization of the currency led through the renewal of undisturbed budgetary balance.

However, in his analysis of the causes of inflation, he also pointed to the effect of the movement of incomes on the development of price levels, and in this he opposed Friedman, who overrated the monetary phenomena associated with the issuing of money. Karvaš also pointed to the effect of changes in the international purchasing power of the monetary unit influencing the price level (foreign currency inflation), and the fact that hidden state loans and growth of the chain of interest payments from previous loans and their payments also lead to expansion of the money supply.

Like inflation, Karvaš also condemned deflation, especially foreign currency deflation as applied by Rašín in 1922-1923, since "deflation, just like inflation, disturbs the equilibrium of forces in the economy". Its essence was an effort to depress the system of economic indicators by deliberately raising the international purchasing power of the monetary unit. This policy, which "enabled precise analysis of the course and results of foreign currency deflation" finally led to a decline of exports, accumulation of goods in the internal market, cheaper imports and reduction of production,



but also a reduction of the total national income and all the negative phenomena associated with this.

His approach to monetary questions entirely naturally started from the views represented by Irving Fisher (1867 – 1947) and J. M. Keynes (1883 – 1946), although he also critically evaluated the quantitative theory of the purchasing power of money, which originated from Fisher and was developed by Keynes, as well as the income theory. The two basic theories of that period had different views on what decides purchasing power. Karvaš inclined to the view that the purchasing power of the monetary unit is determined by the ratio of the national nominal income to the quantity of goods representing the national real income. He stated that if “increasing the quantity of currency resulted in an increase in the nominal national income with which the nation real income has to be bought, the price level, which is generally in inverse proportion to the indicators of purchasing power of the monetary unit, will rise, so that the value of the monetary unit falls” under the condition that the size of the real national income remains unchanged. According to Karvaš, the incomes of households should rise only if the increased quantity of money increases the quantity of goods.

He went beyond the framework of the Keynesian theory, which sets the maintenance of price stability as the basic aim of monetary policy, by considering it important to determine the quantity of money in circulation and the size of bank credit in relation to the extent of economic transactions. He thought that in these conditions, the discounting policy of the central bank enables the stabilization of prices. He held the view that the system of a controlled currency inevitably demands the coordination of the monetary policy of different countries. He thought that moderation of these deviations could be achieved by an integrated credit and investment policy.

In the complex wartime conditions and difficulties of the newly formed state without the necessary institutions, Karvaš also expressed himself as a consistent practical applier of monetary policy. As governor of the central bank, he applied a well thought out and effective monetary policy, which succeeded in maintaining the unbelievable stability of the Slovak crown for a long time. He increased the originally low, almost zero foreign exchange reserves of the state to a stock of 7.5 tons of gold currency, which he steadily deposited in Swiss banks. Directed by him, the Slovak crown was also a strong and stable currency in wartime conditions, with an official exchange rate of 11.60 Slovak crowns to 1 Reichmark. In February 1945, one mark cost only 2.50 crowns.

Karvaš's theoretical conclusions and the practical economic applied by him and his colleagues (Medrický, Pružinský) were characterized by defensive tactics aga-

inst the expansive and aggressive economic policy of Germany. The introduction of various clearing accounts in Slovak – German trade and various exchange rates for the mark are examples of successful defensive measures. There was also an orientation towards development, for example, by passing an act to support investment, and long-term blocking of a coupon system.

The day after the Gestapo condemned him to death, Karvaš returned to his consideration of the question of whether he had acted correctly, when he had entered the economic policy process of the Slovak state at Tiso's request. He wrote that when he recalled the “struggle for the economic independence of Slovakia, in which all the economic experts had joined together” and in which they had achieved more successes than failures, he came to the conclusion, that he had “stood in the right place.”

The evaluation of Gustáv Husák from July 1944 for the political needs of the future ally Moscow, testifies to the fact that the Slovak state followed a good economic and monetary policy during the war: “The Slovak crown is the best currency in commercial Europe. It has full confidence at home, people save their money, there is no flight to natural trade as observed in the neighbouring countries, inflation is caused more by German pressure on the economy than by domestic factors, the price of consumer goods on the black market is 1 – 5 times the official price, official levels are often maintained, while, for example, in the Czech Lands they reach 100 – 200 times... The exchange rate of the Slovak crown to the Czech is officially 1 : 1.05 in favour of the Czech crown, but in reality, on the black market, in exchanges and so on, the real strength is 1 : 7 to 1 : 10 in favour of the Slovak crown. The Czech currency is entirely ruined, but the Slovak crown is relatively well maintained.”

### Regionalization and Czech-Slovak relations

Karvaš was a co-founder of the political and economic movement known in the 1930s as “regionalism”. On the one hand it meant the maximum decentralization of the strongly bureaucratized state executive power in Czechoslovakia, while “preserving the firm unity of the state”. A real economic vision of development and attempt at “equilibrium” led him to the view that the coexistence of Slovaks and Czechs demanded far-reaching decentralization “without such constitutional changes, which would shake the foundations of unity.”

This was already expressed in his first theoretical works, in which he expressed the demand “to observe the economic life of Slovakia from points of view other than the whole national economy”, which obscures the real development and conflicts of interest by its synthe-



sizing. He wrote: "The problem of Slovakia is described as a mainly economic problem, but this is still not reflected in practical policy, if we can expect solution of this problem systematically, pragmatically and with deliberation, as economic questions demand."

In 1935, he said in a lecture in Prague on the theme of Czecho – Slovak relations from the economic point of view: "Industrial development in Slovakia, which began... with Hungarian industrial policy, which strongly supported the establishment and expansion of new

enterprises, was still not completed in 1918. A period came in which the financially strongly developed export industry of the Czech Lands, built under Austria independently of purely agrarian Hungary, could freely compete with the weak Slovak industry... The Czechoslovak state was not prepared as a whole from the economic point of view, and the results of this inevitably appeared. It is not possible to merge two territories on the principle of free competition. It is possible only by targeting policy."

#### The most important publications of Imrich Karvaš

- Francúzska inflácia a z nej vyplývajúce poznatky pre menovú teóriu, (The French Inflation and the Lessons for Monetary Theory Derived from it), 1928.
- Hospodárska štatistika Slovenska, (Economic Statistics of Slovakia), 1928.
- Štátne príjmy a konjunktúra, (State Income and Prosperity), 1931.
- Vplyv kartelov na konjunktúru, (The Influence of Cartels on Prosperity), 1932.
- Zjednocení výrobních podmínek v zemích českých a Slovensku, (The Unification of Conditions for Production in the Czech Lands and Slovakia), 1933.
- Problematika času v hospodárskej teórii, (The Problem of Time in Economic Theory), 1937.
- Základy hospodárskej vedy I. a II. diel, (The Basics of the Economic Science, 2 volumes), 1947 (1999).