

KAREL ENGLIŠ

prof. Ing. Tibor Paulík, CSc.

Karel Engliš belongs among the most remarkable scholars in the Czech economic thought from the period between the World Wars. In spite of the fact that Engliš as a theoretician had been influenced by the Austrian School and quite substantially by the Neoclassical School, he may not be labelled merely as a Czech representative of the mentioned schools. Applying the noetic form of cognition, especially theology, Engliš considerably deviated from the main stream of economic thought and introduced himself as a distinctive economic thinker. He extended the notion of two forms of cognition, that is the world as it is and as it should be, with the third form, that is the world as it is desired. Later, he developed in detail these noetic fundamentals for the economic science and he distinguished ontological, theological and normological forms as a means of cognition of reality. Having thrown light upon these noetic forms of cognition, Engliš devoted all his efforts to application of theological form of cognition in the economic science. And it is the application of theological form of cognition of the national economy, or application of theology in the economic science, where his unique theological economic thought is born.



Along with the noetic fundamentals, Engliš's economic theory is grounded on the presumption that cognition and comprehension of economic phenomena is satisfactory in scientific terms only if during inspection of behaviour of economic phenomena it is rather purposefulness, deliberateness, selection of the goal and means and, taking into account these, rationality of the decision-making and procedures, whether we speak of decision-making of companies, households, banks, the state and virtually any economic organisation. Engliš, being faithful to his theological approach, then sought in the economy especially the order, arrangement according to purposes and means and so shifted focus of the economic theory to investigation of systems within which the economic activity carries on. Making use of these fundamentals, Engliš constructed economic relations at all levels.

Engliš had an exceptional opportunity to verify and pursue his theoretical thoughts in practice, either in the position of the minister of finance in the governments in the First Republic, or as the governor of the Czechoslovak National Bank. This is why his theological approach made deep imprints in the development of the Czech economic thought.

Karel Engliš was born on 17 August 1880 in Hrabyně near Opava as the ninth child of a village butcher. He graduated from the secondary grammar school and after the final examinations, he attended Law Faculty at Charles University. Here, he was a student and dedicated scholar of then remarkable Czech professor in economy Albín Bráf. It was the participation in the Bráf's seminars which arose interest in Engliš in the economic science and brought him to serious considerations of his own academic career. The decision was also further supported by a short trip at the University in Munich, where he took part in seminars given by the well-known professor Brentan. He received the doctoral degree in law in year 1904.

He acquired the first job in the Regional Statistical Authority within the Czech Kingdom, where his scientific interests directed him to more profound statistical analyses. He persisted with this activity for long four years. When the Czech professor Fiedler became a minister in the Austrian government, Engliš was called to get enga-

ged in the administration of this authority. This is where Engliš's personal scientific activity begins.

*Neither his work in Vienna however took long time. Engliš kept thinking about his scientific work and he received an opportunity at the Czech Technical University in Brno. He habilitated here in year 1910 with professor Jan Koloušek with his thesis *Tariff Work Contracts from the Perspective of the National Economy* and soon he began giving his lectures as an associate professor in national economy. After professor Koloušek's leave in year 1911, Engliš took over and became a special professor and, as a matter of fact, the period of his great scientific work in Brno begins.*

The intellectual environment around the Brno legal normative economy professor Weyr became a feeding ground for his scientific work. His scientific interest slowly started shifting to public finance questions and from here they departed to the problematic circles of the national economy.



In year 1913, he published lithograph lectures on national economy, which were remarkable also due to the new approach to the notion of value. In year 1916, his minor work called *Social Policy* was released, followed by a series of works where he considered in detail the results of his statistical surveys. One of the most remarkable works in this field is *Theory of Statistics of the Consumption Economy* of 1917, a priceless source of information of the life standard and lifestyle of the middle class at that period.

The book called *Money*, released in 1918, was the first work concerning the national economy, where the features of Engliš's forming concept of the national economy can be noticed, above all the relation between the monetary policy with the income policy. It was at the time when Engliš was putting together a viewpoint of cognition of the national economic phenomena which deviated from the prevailing perspective at the national economic schools of that time. It is worth saying that it is this book where already quite distinct grounds of the different approaches to monetary policy held by Engliš and Rašín (Dr. Alois Rašín, 1867 – 1918, Finance Minister between 1918 – 1919, 1922 – 1923, the maker of the Czechoslovak currency). In year 1918, his work *The Outline of the National Economic Noetics* is published, where he provides a detailed explanation of his theological approach to cognition and in year 1922 his book *Essential Economic Thinking* is published, which works out this approach in deeper detail.

In this period, great Engliš's works follow. The first of them was called *National Economy* released in 1924, followed by *Financial Science, Theology as a Form of Scientific Cognition* in year 1930, *Theory of the State Economy* in year 1932, *Of the Controlled Economy* in year 1935.

Engliš's supreme work is a two-volume *The National Economy System – Science of Order Where the Individuals and Nations Endeavor to Sustain and Improve Their Life* (Melantrich Praha 1938, Volume 1 – 892 pages, Volume 2 – 725 pages). Engliš's perspective of the economic system is polarizing, which may show either a character where every individual takes care of himself, is a subject of the care of himself, or the subject of care is somebody else, i.e. the state power. Each of these alternatives is connected to a certain economic order, a certain economic system. Taking these into consideration, Engliš forms principles of the economic individualism, which he marks capitalism, and economic solidarity, which he marks as communism. However, he considered his construction of economic systems a certain abstraction, models, which are in their pure form never encountered. He remarks, however, that any economic system is put together of more elements, but such an interconnection must be consistent and therefore incorporation of an extraneous element, i.e. an inconsistent element, would bring about distortional effects.

The book titled *The National Economy* was released in 1940 and was in an enriched form republished in year 1946. In year 1946, another Engliš's book was published, named *Economic Systems*, followed by *The Small Logic* (small only as to its name, the scope of 512 pages). In year 1991, *The Economic Institute of the Czech Academy of Sciences* published *Selected Chapters* and in year 1992 the last book of Engliš titled *Eternal Ideals of the Humankind*. In year 1994, a selection of the main articles from his economic theory titled *National Economy: Selected Chapters* was released.

Engliš published a number of journal articles and minor separate works, amounting to 21 until year 1947, of which we shall mention at least *The Monetary and Financial Problem of the Czechoslovak State of 1919*, *Three Years of Financial Policy of year 1929*, *The Crisis and Prices of 1931*, and *Of the Balanced Function of the Foreign Currency Rates of year 1935*.

In year 1939, Engliš was appointed a professor in national economy at the Law Faculty of the Charles University in Prague but his active work at this institute was quite short due to the world developments. In the course of the War, Engliš was intensely engaged in elaboration of his theological form of cognition. The result of these efforts was a manuscript *The Great Logic* of 1947, but the prepared typesetting of this work was destroyed in year 1948.

The period after year 1948 should have meant a culmination of Engliš's scientific but also academic activities. In year 1947, he was awarded an honorary doctoral degree at the Masaryk University in Brno and in the same year he was unanimously elected Rector of the Charles University. However, the election of Rector of the Charles University was taking place at the time when the political situation in the country was dramatically culminating and this is why also the position of Rector of the Charles University became an object of political interests; and appointment of Engliš – as an economic theoretician being a representative of democratic liberalism – to this position was viewed as a politically undesirable act. Engliš was labelled as "a doubtful representative of the Charles University". In the office of Rector Engliš remained less than three months. February 1948 created quite a new situation. Under the pressure of the events Engliš handed in a written resignation for the position of Charles University Rector of 26 February 1948.

The circumstances which came about after February 1948 stroke Engliš in its full severeness. In year 1952 he was forced to leave Prague and after managing to obtain a permission he moved to his hometown of Hrabyně near Opava. Even in these hard times he remained admirably industrious; a number of minor works – especially in the field of noetic logic – have preserved from these years of his life. The last comprehensive work from this period was titled *The Eternal Ideals of the Humankind*. Karel Engliš deceased on 13 June 1961 in Hrabyně.

The Scientific Legacy

The consistent theological view enabled for Engliš to learn about and analyse the principles of the market economy, connections of the four markets, i.e. the market of goods, capital (money), labour and foreign currency, and their relation to the price mechanism, analyse principles of the balanced operation of the market economy and on this basis the substance and methods of the state economic policy.

This is to say, he did not choose the way of searching connections or confrontation of his own economic theory with new streams in the world economic thinking, which was represented by remarkable persons, such as Irving Fisher, Gustav Cassel, John Maynard Keynes, Josef Schumpeter, Ludwig von Mises or Franz von Hayek.

Market and Equilibrium

Engliš considered the capitalist economic system to be the only possibly realistic system, on the top of it, he considered it also to be the most effective and democratic. This is why he focuses his attention on interpretation of principles of market-based capitalist economy and its economic policy. He marked the exchange community to be the substance of successful operation of this system and national economy. The exchange community is created by individual economy, households and companies, which meet and collaborate in the markets and by means of the market economy they create the balanced order, where production and consumption tend to reach equilibrium, which follows interests of both the producers and consumers. The fundamental feature of the market, which otherwise would have no sense and, as a matter of fact, would not be a market as such, is a mutual competition. Engliš in this respect speaks of the market of goods and services, where the price of goods is made; capital market, where the price equals the interest rate; labour market, where the price equals the wage; and foreign currency market, where the price equals foreign exchange rate. He maintains that functioning of these markets is based on the balanced operation of the price mechanism, since the price is inseparable from the market and it is the price which interlaces all the markets. It is then this price interconnection which in Engliš's opinion establishes the propensity of the whole economy to equilibrium, which is a natural economic process.

Monetary Theory, Financial Issue and Foreign Exchange Rate

Engliš's interpretation of monetary theory is derived from his theological approach and it is grounded on relations to subjects. It is a view which flies in the face of any version of the quantitative monetary theory which works with the quantity of money in the economy as a critical element of the monetary policy. His monetary theory is based on relation of money, or its purchase power to creation of incomes in companies. This is, as a matter of fact, how the function of money is determined.

So conceived income approach to money is reflected also in Engliš's definition of money and in the interpretation of the function of money. He rejected monetary definitions which related money to a certain good, e.g. gold. In his opinion such a definition made of the monetary system a monetary theory and maintained that there may coexist more systems, but if it is to be correct, there should be only one monetary theory.

His theory based on the purpose-built relation distinguishes a double viewpoint, quantitative and qualitative. It is a view taken by a certain individual subject which always sees only a certain amount of money, sees always only a monetary unit. For these subjects, money is goods, a means applicable for realization of the purpose of economy (profit-making purpose of companies, saving purpose of households). Their applicability may be indirect, i.e. applicability not in relation to the material of which they are made, but determined for another use (admission fee, fare, etc.), or universal, with a general applicability, for acquisition of all goods. This definition of money as a good with general applicability as a matter of fact covers the traditionally named functions of money.

Use of money for securing all the economic activity is ensured by the central monetary authority. It makes sure that money will work as a reliable means of exchange, that on the basis of money the market will work, that the purchase power will be stable.

Considering Engliš's view of money and his monetary theory, it is apparent that it is distinctly a nominalistic theory. It is then comprehensible that he always saw a purchase power in the monetary unit. This view of his is demonstrated by the idea that nobody thinks of the content of the monetary unit determined by the amount of material, but exclusively of the indirect applicability of the monetary unit determined by its purchase power, exchange value. He reminds that after liberating ourselves from being



stuck to the notion of close relation of money to a particular good, it is possible to work with a monetary unit as with a thought construction drawn from the price level.

For Engliš, a determined nominalist, the connection of money with its purchase power became a fundamental question. This is why even in his opinions concerning the issue of money he points out that the purpose of money, which represents a certain purchase power, is, in return of it, to take away a certain equivalent of the national product. This however also implies that purchase power may be created only by a corresponding contribution to the national product. The banking loan is money, or it is a purchase power, therefore the banking system is supposed to work in such a way that by means of the credit activities only such an amount of purchase power gets into the circulation which has been entrusted by depositors to the banking system. Issue policy pursued by the Central Bank only supplements this essential money circulation and responds so to the changing needs for money. Such money only facilitates the exchange but does not replace or create the capital.

The issue of money conceived in such a way however calls for a clear determination of issue credits, by means of which money as a means of exchange flows in the economy, enabling a smooth process of purchases and sales, coming from issue credits which replace creation of capital. Otherwise a credit granted by the issue bank would provide purchase power to the subject who has not contributed to the national product; it would create an artificial purchase power, which would bring about inflation effects.

This is why Engliš unequivocally maintained that the issue bank should not provide a long-term credit, he preferred an issue credit based on a commercial draft, the most reliable means in terms of monetary stability. After the use of drafts had been abandoned, he inclined to application of discount policy, which he considered a response to the development on the short-term monetary market.

Engliš so rejected the notion that the issue bank should become an instrument of such economic policy which intends to make use of issue policy for facilitating of the economic growth, reducing of unemployment; in other words, he rejected requirements of the prevailing Keynesian concept of making currency an instrument of so formulated economic policy. In his opinion, such a credit may be applied to facilitate the economic policy, but the prerequisite capital would be drawn at the inflation growth of prices, that is from the transfer of purchase power from those whose real

consumption has reduced due to the inflation to those who obtained the financial resource. He was convinced that the issue bank will best support the economic policy in the case that they pursue the policy of stable purchase power of the monetary unit, so that no disruptions in the national economy would arise in terms of monetary policy.

Clarification of issue circumstances along with the requirement for stable purchase power were for Engliš a starting point for solution of the inflation and deflation problem. This is why in the monetary economy, where the price is represented by money and money is a universal means of exchange, inflation and deflation is reflected in the quantity of money, but Engliš also remarks that these are rather consequences. This is why he distinguished inflation and deflation and inflation and deflation methods, that is measures or events bringing about inflation and deflation effects. He pointed out that inflation and deflation are not reflected

merely in the shift of the price level, but gradually also in the shifts of gross revenues of companies and the income level. So they are monetary distortions when the whole production and consumption processes carry on at higher or lower price levels, with a retroactive effect to real production and consumption. He distinguished four major inflation methods, that is creation of artificial purchase power as a result of the issue of credits which do not form an exchange means, artificial intervention with the price level, which consequently deviates from the level reached under free competition, changes of the exchange rate and changes in the balance of payments, when as a result of the active balance foreign currency flows in the economy, which the issue bank uses for increasing of the bank's reserves and by means of their purchase the bank extends the circulation of money, which brings about inflation effects.

Engliš's concept of the exchange rate is grounded on the market mechanism and price concept of four markets, i.e. goods, labour, money and foreign currency. The foreign currency exchange rate is, as a matter of fact, the price of the foreign currency and it is created on the basis of supply and demand between which it maintains at the equilibrium level. It applies also on this market that it is not merely supply and demand which alone determine the exchange rate because they do not develop independently of the exchange rate level.

The decisive issue for Engliš is the relation between the exchange rate and the domestic and foreign price levels. Any shift of the exchange rate affects the price level and so influences preferability of purchase of goods, labour and capital abroad and the sale



of their domestic counterparts abroad. In this light, the exchange rate indicates preferability and non-preferability of all foreign transactions.

The exchange rate does not create balance at foreign markets as a result of its inclination to equalise the price levels, but through exchange rate view of the price levels. Based on this essential relationship he derived his considerations of the relation between the exchange rate and import and export tendencies; he asserted that each exchange rate is matched by a certain level of competitiveness.

In this context, Engliš constructed competitiveness equilibrium point, at which the exchange rate does not tend to fluctuate because the balance of payments is at the balanced level. He speaks of a balancing function of the exchange rate, when the equilibrium is maintained by means of increase or decrease of the determined domestic price level and so moving the competitiveness point to the equilibrium point. In Engliš's words, therefore, a certain functional relationship exists determined by the balance of payments between the domestic price level, exchange rate and the world price. At the determined world price level there must be such a ratio between the domestic prices and the exchange rate that the competitiveness point is at the equilibrium. Either the exchange rate has to gradually adjust to the price level, or the price level to the exchange rate. He admits however that the country may to a certain extent affect their frontier of competitiveness. Nonetheless, he reminds the exchange rate policy may not be freely applied to determine the frontier of the competitiveness because in the case that it exceeds a certain limit, the inflation process resulting from the increase of the price level will unavoidably be incurred.

Critical Opinions of the Engliš's Theory

It is natural that Karel Engliš – an exceptional, ori-

ginal theoretician in the field of national economy – got involved in conflicts with other opinions.

Concerning the theory of the national economy, he was criticized above all for his nominalist concept of money, rejection of the golden standard, concept of the neutral monetary policy, interpretation of the price relation and the exchange rate by utility considerations made by economic subjects and, last but not least, creation of the economic policy based on individualist grounds with solidaristic extension.

Engliš was much more extensively criticized for his financial and monetary policy. It holds true that he had a number of supporters but he was also a target of unflinching criticism and rejection, especially when coming to application of these policies. It should be mentioned, nevertheless, that the criticism did not always stem from disapproval of his theoretical fundamentals, but often it was motivated by political opinions of those who criticized him. These disputes had an objective ground only in the case of arguments with Rabín and his supporters concerning methods of the post-war monetary policy.

Very sharp disputes were held between Engliš and representatives of the Keynesian economic thinking (Josef Macek, Jaroslav Nebesář, Karel Mainwald). The subject of this criticism may be seen in the opinion that the issue bank may not be monetarily neutral, but it must make use of its policy to support the national economy. Also, the state budgetary policy should act in this direction, even at the expense of the budgetary deficit and national debt.

Particularly severe and very personal criticism came from the communist-based opposition, which in principle rejected capitalist economic establishment.

Karel Engliš, in spite of the aforementioned objections and differences in opinions remains an original theoretician in the field of national economy and a leading personality in monetary and financial policy, a unique scholar of the Czech economic thinking.