

## PROFESSOR IMRICH KARVAŠ – ECONOMIST, SCIENTIST, POLITICIAN, AND TEACHER

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*During its fight for emancipation, the recognition of its irrevocable right to equal status within the community of nations of Europe and the world, the Slovak nation was often faced with the question – through what and by whom the country's intellectual potential could be demonstrated? In the field of economic theory and policy, which are so dependent on national and state sovereignty, historical facts were often distorted by the ups and downs of political and social life as a result of which*



*certain Slovak personalities were removed from the national consciousness, even though they might have acquired an international name. One of these personalities was Professor Imrich Karvaš. Although he is remembered as the first governor of the Slovak National Bank in 1939 – 1944, his profile and ideas are virtually unknown to the general public. However, it is not often that one finds a symbiosis combining a scientist, theorist, teacher, and an economic expert as in the case of Professor Imrich Karvaš.*

The professional career of Professor Karvaš was marked by rapid advancement. He was born on 25 February 1903 in Varšany (Levice District). He graduated from Comenius University in Bratislava in 1925. After studying economic law in Paris and Strasbourg, he lectured at the Faculty of Law at Comenius University, where he became a senior lecturer in 1934 and an associate professor in the same year. In 1940, he was appointed professor of national economic science. He lectured at the Sorbonne, in Germany and England. In 1937, he gave a series of lectures in the USA, where he became a member of the Econometric Society in Colorado Springs.

As a respected university teacher, Professor Karvaš was one of the leading Slovak scientists of the time. In his theoretical works, he sought answers to questions arising from actual political and economic developments, and then tried to apply them in the management of the national economy. Professor Karvaš is often characterised as a follower of the Czech professor, K. Engliš. Although he continued the work of K. Engliš, he was in fact a proponent of the Austrian school of national economic science, which is clearly reflected in his works. Undoubtedly, he may be characterised as a leading personality, especially in the fields of financial and monetary theory and policy, whose influence spread beyond the bounds of his native country.

Professor Karvaš drew a realistic picture of the economy of Czechoslovakia in the period before the Munich Agreement (1938) already in his first books, which revealed the real problems of Slovakia. The most

significant were: *The Economic Statistics of Slovakia* (1928) and *The Creation of Equal Conditions for Production in the Czech Lands and Slovakia* (1933). In these works, Karvaš attempted to give an overall view of the Slovak economy. For that reason, he formulated the requirement 'to monitor economic developments in Slovakia from view-points other than the national economy', the synthesising approach of which obscures the actual developments and conflicts of interest. The views of Karvaš, the economist, who tried to analyse the trends of development in the Slovak economy in theory, were also adopted by Karvaš, the politician, who expressed the following idea in the introduction to *The Creation of Equal Conditions ...*(1993): 'The problem of Slovakia is predominantly an economic problem, which, though it has not yet appeared in practical politics, should be tackled systematically, objectively, and carefully as an economic problem...' The parallel with the economic problems of Slovakia in the 90's and the 'federal' view on their solution, is not accidental at all.

His understanding of the problems of Czechoslovakia and Slovakia in the 30's also determined his idea of the role of the State in the solution of those problems. In this respect, he was a supporter of regulatory measures by the State in both general and regional policy in Slovakia, in the interest of economic development.

He also dealt with the theory of economic boom, mainly in his work *Influence of Cartels on Economic Prosperity* (1932). In this connection, he pointed out the cyclical fluctuations in the national economy and



the varying intensity of economic activity in periods of economic boom and depression. He was of the opinion that fluctuations could be mitigated via strict credit and investment policy.

As a scientist, Karvaš also demonstrated his inventiveness when he entered a theoretical field, as yet unexplored. His scientific explorations were, for the most part, motivated by practical problems. Such an attempt – inspired, as he admitted, by Engliš – was made in his short, but thought-provoking work from 1937, *The Question of Time in Economic Theory*.

The above book is based on the perception that things can only exist in specific space and time. He used this fact in the creation and definition of terms in economic science, the subject of which are developments and changes, where time is not only an aspect of existence, but also a component of awareness. From this point of view, he examined the terms 'consumption' and 'goods' as a function of time, the relationship between time and work, and some methodological problems of economic science, mainly in connection with current static and dynamic views on economic phenomena.

However, Professor Karvaš, as an economist, came to focus his attention mainly on monetary issues.<sup>1</sup> This was already reflected in his first publications, i.e. *French Inflation* (Bratislava 1928) and *The International Monetary Problem* (Bratislava 1929). According to Karvaš, inflation in the 1920's was due mainly to the post-war budget deficits and their coverage by short-term Treasury bills, used to create purchasing power. He was of the opinion that the road to currency stability lay through the restoration of a balanced budget. After analysing the causes of inflation, however, Professor Karvaš pointed out the effect of fluctuation in incomes on price levels, and opposed, in this question, Friedman, who overestimated monetary phenomena in connection with the issue of currency. He also warned of the effect of changes in the foreign purchasing power of the currency unit on price levels and of the fact that funding state expenditure by loans and growth in interest payments on outstanding loans and loan repayments lead to increased inflation.

In his approach to monetary issues, Professor Karvaš relied on the prevailing views of the time, represented by I. Fischer and M. Keynes, and inclined to the theory of 'controlled currency'. He reasoned (on the basis of his experiences in the USA) that the system of controlled currency should withstand the fluctuation in

purchasing power caused by fluctuation in the value of gold. In connection with the mechanism of purchasing power creation, Karvaš considered it essential to be aware of all the factors affecting the purchasing power of the currency unit. Although he was familiar with Keynesian theory, according to which the main task of monetary policy is to maintain price stability, he considered it important that the average volume of currency in circulation and the amount of bank credit should be set in proportion to the volume of economic transactions. He was of the opinion that, under these conditions, price stability could be ensured through the discount policy of the issuing bank<sup>2</sup>. However, he noted that a country adopting the controlled currency system would not be able to maintain price stability if other countries stuck to the gold standard. (For the maintenance of currency stability in such a case, Keynes recommended that the issuing bank should have a gold reserve at its disposal. However, the price of gold should not be fixed; it should be set so that internal prices would be stable). According to Karvaš, research into the purchasing power of a currency unit indicates that the quantitative theory, in its traditional form, does not provide a basis for the understanding of all monetary phenomena and reacts to changes in monetary factors only conditionally and then to a limited extent. He was of the opinion that the system of controlled currency requires co-ordination with the monetary policies of other countries.

Despite being silenced in the new republic, Professor Karvaš did not want to keep his theoretical knowledge and experience he had accumulated during his lifetime to himself. In 1947, Matica slovenská in Martin published his collected (last) works '*The Basics of Economic Science*'. In addition, Prof. Karvaš published numerous monographs and more than 50 articles in professional journals and newspapers.<sup>3</sup>

His words in the introduction to this book are still current and valid, more than ever before: 'Political democracy puts decision-making in all public matters, including economic ones, in the hands of the people. This means that, unless we want economic issues to be managed in an ad hoc and amateurish manner, economic education must be given to as many people as possible.' In this work, Karvaš presented his economic theory at a level corresponding with the rest of the world. Despite being formulated as pure economic theory, it was, or could have been, of great significance for economic policy.

<sup>1</sup> He was of the opinion that monetary problems are the centre of attention among economists, because ... 'monetary phenomena are so complex that they affect all areas of the economy' ... 'depreciation of the currency unit changes the entire economic organism'... See [4].

<sup>2</sup> The national bank was referred to as issuing bank at that time, the current term is 'central bank'.

<sup>3</sup> This book was reprinted in 1999 by VEDA, the publishing house of the Slovak Academy of Sciences (SAV).



In his book, Professor Karvaš demonstrates his approach to economic science and the ethical basis of economic policy. He emphasises the well-known, but not always respected fact that theory is not for its own sake; its basic function is to apply the achievements of science in the implementation of economic policy. In this respect, Prof. Karvaš argues logically that the essential task of theory is to give a true and faithful picture of objective reality. This approach expresses his political credo and understanding of democracy as the basic principle on which society is based, or should be based, in the 20th century.

*The Basics of Economic Science* contain theoretical results and practical experience which led the field at that time. If his work had not been suppressed, his ideas would have had distinct relevance to the country's economic policy even today. However, the significance of this work does not only lie in its original concept, i.e. as pure economic theory. Its real significance (which justifies the reissue of the book) consists in the ideas, methodological approaches, and conclusions, which are still valid and applicable today (though they need to be updated in form).

A positive feature of this work is that it is based on theory, together with practical experience in teaching, and activity in economic and political fields, which is sometimes underestimated today. However, current developments confirm the requirement that 'theory should not exist for its own sake, but for application in economic policy, i.e. for life in practice'.<sup>4</sup> Hence, the reissue of his work *The Basics of Economic Science* may be regarded as an act of public and personal rehabilitation of Prof. Karvaš, as well as a sign of appreciation and his rehabilitation as a scientist.

To create an economic system with increased room for action to individuals, regions, and non-government organisations, it is necessary to comply with the basic ethical postulates in the economy, where - as Prof. Karvaš emphasized - ethics are even more important than in other areas of social life.

Of continued relevance is Prof. Karvaš' approach to the rights and duties of entities in advanced society, expressed as follows: 'An individual, even if free to follow his own interests, must realise that his activity and economic behaviour must be in line with the interests of the community to which he belongs ... The realisation of an individual's full potential within this framework will then be in the interest of the community'.<sup>5</sup> This leads him to the conclusion that ... an exponent of economic policy, who performs supervision of a certain sector of the economy or controls it directly and active-

ly, should not have any personal relationship with companies or other economic units. Confidence in impartial decision-making in terms of a central goal must be firm and objective'.<sup>6</sup>

In this connection, he also requests adequate remuneration for public employees, since excessive restriction of state expenditure in this area is irrational, since '... If the State allows or tolerates the possibility that its employees earn secondary incomes, the performance of these employees at work will suffer. It is no matter whether such income is earned from a second job, consulting activity, or membership in statutory organisations or companies, the ethical requirement of integrity and impartiality of economic and political bodies in state administration does not permit such possibilities'.<sup>7</sup> In this connection, we could refer to current problems in privatisation, the various economic scandals, disputes in connection with economic laws, etc.

We should not forget to mention the ability of Prof. Karvaš to see things in the light of their possible or expected dynamics and prospects, logic, and development. In some questions, he was ahead of his time, though, in fact, he only extended the line of actual development into the more distant future. This can be clearly seen in his view on expected economic integration, though the question gave rise to frequent discussions at that time. Professor Karvaš warned (already in 1946 - 1947) that it would be necessary to take into account the emergence of supra-national organisational units: 'These units will not be based on the national identity of a social group, but on an effort to create a larger economic grouping. This stage of development will be achieved through national units. The national independence of an ethnic group is a stage on the road to supra-national groupings'. Imrich Karvaš believed was an enthusiastic supporter of the idea of unification of Central European nations as a basis for joint integration into a united Europe. He was an open supporter of the Pan European Union, envisaged by R. Coudenhove-Kalergi. Hence, he attended the 4th Congress of the Pan European Union in Vienna and supported Hodža's project for a Union of Central European Nations as a basis for a unified Europe, in which he also saw good prospects for Slovakia. (It is not widely known that in 1949, at his second political trial, he was also accused of the preparation of a plan for the economic integration of Czechoslovakia into the Central European Federation, or the Danube Federation).

The views and ideas of Prof. Karvaš have been fully confirmed by recent developments. His economic views on Slovakia's national independence, the questi-

<sup>4</sup> See [4], p. 16.

<sup>5</sup> See [4], p. 16/17.

<sup>6</sup> Ibid., p. 17.

<sup>7</sup> Ibid., p. 18.



ons of co-operation within the Vysegrad Four, the idea of disintegration as a basis for economic integration at a higher level, which are analysed in his works, have not lost their theoretical relevance.

The author's research into the history of economic science, which is also part of his work, was successful in all respects. Although this area had been explored by historians in greater depth, it also deserves attention if we want to get a balanced picture of the work of Karvaš. This is important with regard to the existence of diametrically different views and judgements in the last fifty years.

The theoretical work of Prof. Karvaš covers a large area and provides an overview of the entire field of national economic science. The goal of this article is to describe the ideas and approaches that are still valid. This is because, in theory, we often rely on previous results, though they might seem out-of-date.

Although Professor Karvaš was an excellent theorist, he believed that the ultimate goal of theoretical work is the solution of practical problems, even in the field of economics. This approach to the application of theory was reflected in his highly successful work in the area of economic policy (a significant economic factor). In 1926 – 1930, he worked as general secretary of the Chamber of Commerce and Industry in Bratislava; 1930 – 1933 as secretary of the Union of Slovak Banks; 1932 – 1938 as general secretary of the National Economic Institute of Slovakia and Carpathian Ruthenia; and in 1932 – 1938 as vice-president of the Export Institute in Prague. In 1938, he became a minister without portfolio in the government of General Syrový.

As the most prominent representative of national economic science in Slovakia before 1938, Prof. Karvaš became the first governor of the Slovak National Bank (1939 – 1944). From 1942 to 1944, he held the important office of Chairman of the Supreme Supply Office. As governor of the National Bank, he managed to maintain, through rational and effective monetary policy, the stability of the Slovak koruna<sup>8</sup> for a long time during the war, and to increase the originally low foreign exchange reserves to 7.5 tons of gold as monetary reserves. He managed to save most of Slovakia's gold holdings and monetary reserves for the restored Czechoslovak State.

Professor Karvaš was always active in teaching, whereby he passed on his abundant theoretical knowledge and practical experience to new generations. His

name is also connected with the establishment of the University of Commerce in Bratislava in 1940. However, it is not generally known that he was to take over the post of Professor Engliš at Charles University in Prague as early as 1939, which was a sign of recognition of his scientific and teaching qualities. In 1947 – 1949, he worked exclusively (though not voluntarily) for the Faculty of Law at Comenius University, first as dean and later as vice-dean.

At the beginning of the article, we raised the question whether we have personalities in the area of economics, whose results are significant enough in current terms, to worthily represent the country.

We often meet with doubts as to whether Slovakia has any traditions in the fields of economic theory and economic policy. These doubts arise from the fact that these areas were taboo for many years. I think that Zaťko's industrial policy, Hodža's agrarian and regional policy, and in particular Karvaš' financial and monetary policy, based on his own theory, lay these doubts to rest. Although there is progress in many fields (the present European economic system is also a result of gradual development), the works of these prominent Slovak economists still contain answers to many current problems of the Slovak economy.

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<sup>8</sup> Protection of the Slovak currency was ensured via various clearing accounts in Slovak-German commodity exchanges with different rates of the deutschmark, the preference of export (e.g. timber) to countries other than Germany, and the prevention of food surpluses being exported to Germany.