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*Sborník prací Filozofické fakulty brněnské univerzity. G, Řada sociálněvědná. 1961, vol. 10, iss. G5, pp. [103]-116*

Stable URL (handle): <https://hdl.handle.net/11222.digilib/111444>

Access Date: 24. 02. 2024

Version: 20220831

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## THE EQUILIBRIUM THEORY AND THE PROBLEM OF THE CRISIS

*(A contribution to the criticism of the Brno economic school)*

An important element of the modern bourgeois political economy is the conception of equilibrium considered as a normal state to which the capitalist economy naturally tends. At the same time this equilibrium was linked to the marginalist principle as well, according to which the price is determined by supply and demand on the basis of the marginal value of the commodity, wages by the marginal productivity of labour, and interest by the marginal productivity of capital. Thus the equilibrium was linked to a system of equilibrium prices of goods, wages and capital. Assuming freely working economic forces this equilibrium was supposed to assure to each of participating agents a just share according to the marginal value or marginal productivity. Hence, the equilibrium was considered as maintaining an ideal state of maximum satisfaction with no exploitation. This state could be disturbed only by an obstacle to freely working economic forces. There may be some unemployment, for instance, but it is not caused by the nature of capitalism, but by the fact that workers stick to wages incompatible with the given state of the marginal productivity of labour. This unemployment could be removed by lowering wages sufficiently. Furthermore, this theory denied the possibility of general overproduction. One of its main tenets was the well-known Say's law of the markets according to which supply creates its own demand from which it follows that only partial, but no general overproduction is possible. This thesis is right to some extent if applied to simple commodity production because it assumes the use value as the immediate aim of production. It distorts however the reality of the capitalist production with profit as the moving force. Nevertheless, the equilibrium theory found it useful, because this theory itself considered the use value as the starting point to determine value and hereby interpreted capitalism as producing immediately for satisfaction of wants.

The theory of marginal value proceeded from the isolated individual. In connection with this „Robinsonlike“ conception of economic life this theory practically chose the equilibrium of an individual enterprise as the starting point. The equilibrium of the whole economic system was viewed as a mechanical sum of the individual equilibria. Practically, the theory assumed away the capitalist system of production. Hence it did not pay attention to the disproportions caused by the inherent contradictions of capitalism, to the disproportions which in capitalism are just as normal or even more normal than the proportions necessary for an equilibrium to be established. The equilibrium theory admitted the possibility of disproportion when explaining the oscillations of prices around the equilibrium level. But since it did not want to see the contradictions of capitalism, since it intended to interpret the equilibrium

as the result of harmony of in-terests, it considered all disturbances of equilibrium as transitory and of minor importance. The existence of such disturbances was linked to the essence of crisis which was considered as a shift from the normal equilibrium state of capitalist economy. In this way, however, the problem of crisis was necessarily underrated and the crisis itself was interpreted as an abnormal, pathological phenomenon. Assuming away the contradictions of capitalist economy, the equilibrium theory could not understand that it is the other way about that the crisis is but a result of necessary, objective contradictions of capitalist reproduction. This theory could not understand that the crisis is at the same time a means of a temporary solution of these contradictions restoring the equilibrium instead of disturbing it. Thus for the equilibrium theory the normal state of capitalism was supposed to be equilibrium with full use of economic resources assuming free working of economic forces.

The equilibrium theory went through a certain development which in substance reflects the development of capitalism — the transition of a self-conscious rise and faith in a lasting prosperity to the lability of its economic situation which marks the period of the general crisis of capitalism. As mentioned above the equilibrium theory was originally based on the idea of a tendency to equilibrium with a lasting prosperity and full employment of all resources of production. In this conception the optimism of the bourgeoisie and its confidence into a smooth development of capitalism was reflected. The general crisis of capitalism, however, brought such a sharpening of the contradictions that this optimism suffered a heavy blow. The bourgeois economists themselves could not be blind to the defects of capitalism any longer and this state of affairs was reflected in the conception of equilibrium. If the equilibrium has been automatically linked to a state of prosperity until now, the new, Keynesian version of equilibrium admits the possibility of equilibrium with a low activity, i. e. with unemployment and unused capacities. And this new conception has influence on the attitude of bourgeois economists in other directions as well. The new conception of equilibrium draws attention to the factors determining the level of employment, to the question of the magnitude of the national income and to its use. The opinion about the old thesis saying that supply creates its own demand is being revised too. And in connection with all that the problem of the crisis gains in interest. There is no doubt that this process known as the „Keynesian revolution“ brought a more realistic look on capitalism in many respects. It however did not cause the bourgeois political economy to be less apologetic and more scientific. The aforesaid „revolution“ and criticism of old tenets was quite positive towards capitalism, it aimed at showing the possibility of improving the given state, it intended to regenerate the capitalism, to stabilize and to save it.

In the Czech bourgeois political economy the most complete and most systematic approach to the equilibrium theory will be bound in the opinions of the Brno economic school founded by an important theoretician and a man of economic practice as well — Dr. Karel Engliš. He taught at the Faculty of Law in Brno, was appointed several times minister of finance of the bourgeois Czechoslovak republic and governor of the National Bank. Our paper purports to give an explanation and criticism of the equilibrium theory and also of the theory of the crisis as interpreted by Engliš. The basis of our work will

be Engliš's opinions as expressed in his „System of National Economy“ published in 1937.<sup>1</sup>

Engliš's theory is the theory of an internal and external economic equilibrium order based on the teleological conception of the economic process. Every economy is interpreted as being a set of means necessary to attain a certain economic goal, the purpose of this economy. This purpose forms, as Engliš says, the principles of vitality of that economy and enables us to understand its order and development. The internal structure of that economy results from the relations between certain economic quantities — uses and costs whose contents are determined by the economic purpose. The use can only be understood with respect to that purpose and the cost as well. The aforesaid relations are decisive for the relations between real goods and services on the one hand and between money values on the other hand. It however should be emphasized that it is not certain goods that matter, but quantitative relations between qualitatively different groups forming order-groups for certain uses like production, consumption, investment. These quantities are further to be examined within the frame of individual earning — and consuming units, from the point of view of their mutual relations where we are confronted with a certain inter-economic order and finally from the point of view of international relations. In the earning economic unit we have to do with the investment and working capital, with the objective net gain and its distribution, in the consuming economy a certain property, income and its use must be considered, in the national economy the national income and product.

All economic units are mutually connected through the market as links of an exchanging community. This connection is expressed by the prices of all goods and agents of production which the earning and consuming economies sell and buy. From this point of view, according to Engliš, three markets should be taken into consideration: the market for goods, the market for capital and the market for labour with respective prices (prices of goods, interest, wages) tending to equilibrium between the quantity offered and demanded at each particular price. The system of these equilibrium prices lies at the basis of the inter-economic equilibrium order of the respective country. And from the international point of view a fourth type of prices has to be added — the price of foreign exchange which connects the economies of individual states.

Every shift of equilibrium in any of the mentioned markets results in a general disturbance of economic equilibrium as it will be transferred to other markets as well. Any change in the price of the capital goods will affect the consuming units. Any shift means plus or minus for many persons and will therefore bear favourably or unfavourably on the purposes pursued by the earning and consuming units. If consumption shifts from one group of goods to another, it will affect the advantage of some producers and the detriment of others. The equilibrium of the respective economic unit will be disturbed and it will have to strive for a new equilibrium.

And here we have hit upon the essence of the crisis. It means any disturbance of the equilibrium order caused by shifts of economic relations affecting uses pursued by the respective economic unit. And in Engliš's theory crisis gains a specific meaning. Engliš emphasizes that crisis, conceived from this teleological point of view, cannot be identified with the crisis considered to be a low state of activity. According to Engliš it is necessary to distinguish the crisis

as an antithesis to the equilibrium order of the low state of activity. This teleological theory is not interested in concrete causes of the shifts of relations influencing the equilibrium, but in the shifts themselves, resp. in their effect upon the equilibrium according to how they affect the purposes pursued by the economy. This is an abstract, but universally valid theory, asserts Engliš. It ignores the quantitative aspects of those shifts, it is interested in their quality only, in the fact that they disturb the equilibrium even to a very small extent. In this way the theory confronts the system of order with a system of disturbances of the order.

This method of analysis differs according to Engliš from another possible aspect — i. e. from the causal-historical aspect. What is the difference? Teleologically we proceed from the shifts of relations which may be explained from the point of view of a certain economic purpose. Causal-historically we have to do with the causes themselves of these shifts. E. g. we may study an enterprise (an earning unit) in the development discovering a series of causes and consequences bearing upon the development. This causal-historical method, however, cannot explain anything, says Engliš, if we do not know the principles of vitality of that enterprise, i. e. the economic purpose which it pursues. Nothing but the knowledge of that purpose enables us to understand the influence of external circumstances upon its activity. Hence, the causal-historical study leads to the theory of prosperity, it analyses the state and development of the economic activity of a concrete economic unit, whereas the teleological of the price of one commodity will influence its consumption and hereby the respective purpose constituting its ordering principle.

Suppose the shift of economic relations, i. e. the disturbance of equilibrium, originates in any of that three markets — goods, capital, labour. This movement will be transferred, says Engliš, to the whole of economic order. The change of the prices of one commodity will influence its consumption and hereby the demand for other commodities will be affected. The producers will have to respect it. And here, says Engliš, the double look at the same process manifests itself. From the causal point of view the change in the structure of consumption of one economy is the cause and the change in other markets is the consequence. But only from the teleological point of view, i. e. from its „internal vital principle“ we can understand how the changes in the structure of consumption originated.

Further Engliš analyses individual cases of equilibrium disturbances as he sees them in capitalism. In this sense we may have to do either with the crisis of the individual earning or consuming units or with a crisis of the equilibrium order between these units. As mentioned above, this economic order is based upon a system of internal equilibrium prices — prices of goods, capital and wages — and on the exchange rate of currency. Disequilibrium may arise in any of the markets where prices are being formed and expands through the whole system. With respect to that we may classify crises according to markets where the disturbance originated. It is also important to consider from what change of economic relations the disturbance came. As there is always a shift of the price from the equilibrium position, it happens that individual economic units demand at the new price different quantities of goods, capital and labour than before.

First of all the equilibrium may be disturbed by the intervention of state

in any market. Besides this case the prices in the market of goods will be changed due to changes in supply and demand. On the side of consumption, i. e. of demand, the national income, its distribution between consumption and savings are the decisive factors. Of course, as a bourgeois economist Engliš consequently circumvents the distribution of national income among social classes. He mentions that distribution of incomes is important for their use, he says that the share of savings is larger in the higher income group and that here the structure of consumption is different from the lower incomes. He ignores however the objective foundation of the unequal distribution of incomes, i. e. the significance of the capitalist ownership.

Another important factor in the market of goods is production and imports. There is a certain amount of production corresponding to a certain price according to the respective advantage at given cost. Any shift in cost at given price calls forth a larger or smaller amount of production with due effects upon selling prices. If equilibrium is disturbed, it means that either demand or offer gained in strength.

There is a similar situation with capital goods bought by enterprises. Their prices too depend on supply and demand. Both is influenced by the net gain of the enterprise, by the prices of consumers' goods, wages and interest. Any change and shifts in these markets will be reflected in the prices of capital goods bought by enterprises. On the other hand, changes in the conditions of production of capital goods are important as well.

Another market is the capital market. Money capital (and therefore its supply) varies according to the use of the incomes. This will be reflected in the capital market (through supply) and in the goods market (through demand). Against this supply of money capital there is the demand for it, especially from the enterprises. This demand depends upon the state of activity and the level of cost.

Finally there is the labour market with shifts due to changes in the determinants of wages. On the supplying side there is the increase or decrease in population, on the demand side there is the activity of enterprises which itself depends on the state of the goods market, interest and on the level of wages as well.

The foreign exchange market is a link to the world economy. First of all, this market is strongly dependent on the internal markets. They influence imports and exports of goods and capital which results into the state of the balance of payments.

All four markets are the cornerstones of the inter-economic order. All four markets are mutually linked and every disturbance in one of them will be transferred to all of them. But since the activity of all mutually linked economic units is conditioned by the price as the result of the forces of the market, the change of economic relations will affect all economic units as far as it is reflected in the prices. In this sense we may say, according to Engliš, that every crisis is a disequilibrium between production and consumption, because every crisis, may it arise anywhere, will finally manifest itself in the market of goods. But, it would be equally justified to say that there is a disequilibrium between labour offered and employable or a disequilibrium in the capital goods.

Further Engliš shows that the transferring of disequilibrium from one market

to the other ones is a very complicated process. It does not spread only from the focus of the disturbance to the other markets. The wave returns back to the focus and then goes on spreading again. The complicacy of this process is increased by the fact that some components of the economic mechanism, e. g. long-term obligations, are rigid. Finally Engliš writes that a perfect equilibrium is thinkable only in abstracto, theoretically, because all decisive data are subject to permanent movement and development. This leads to the fact that instead of equilibrium there is a permanent oscillation. But only big waves and disturbance draw attention. Engliš compares the intereconomic order to scales which keep on moving constantly.

Considering every disturbance of equilibrium, favourable or unfavourable to be a crisis, Engliš is of the opinion that it is not possible to describe the crisis as a phenomenon generally. There may be innumerable causes of equilibrium disturbances and they manifest themselves in most various places. Therefore, only special phenomenology, i. e. that one in accordance with individual kinds and types of crises, is possible. Engliš borrows an example from medicine saying that just as medicine does not seek any symptoms in general, in abstracto, but always for special diseases, neither economic science can tell the symptoms of a crisis in general, but always for particular types of crises.

Engliš thinks this approach to be of elementary importance as it is decisive for the success or failure of the business cycle politics. It should be at the bottom of the causal-historical and statistical theory of prosperity as well. This theory studies the extent of the rise or fall of the activity of the enterprise. But to this end the theory must be able to analyse the economic phenomena which is only feasible with the help of the teleological theory of crisis conceived as an equilibrium disturbance. This will enable the causal theory of prosperity to discover the origin of established changes and their connections after certain phenomena and their development have been analysed.

Proceeding from this opinion that the crisis means always the shift of certain economic quantities, Engliš classifies three types of equilibrium disturbances as the main types of crises: a) deflationary crisis, b) overproduction crisis and c) rationalization crisis.

a) deflationary crisis is due to increased value of the monetary unit which leads to general lowering of prices and money incomes. Relations between prices are not affected, but the absolute level of prices is lowered. In consequence, real incomes do not change. Such a deflation may be the result of an artificially increased exchange rate. By this, exports are dampened, imports promoted. Thus, competition is intensified, both prices and volume of production are lowered.

Or deflation will be stimulated internally, e. g. by restraint of credit through raising of interest. This, too, dampens production, makes old debts more heavy. This method also results in a general slump of economic activity and in a lower price level. The chief problem in both cases is the rigidity of some economic quantities (debts, taxes) which makes it more difficult to attain a new equilibrium at the lower level of prices.

b) overproduction crisis is caused by a disturbance between the price, volume of production and cost of production. The volume of production at given price is larger than the market can absorb. This leads to lower volume of production, to unemployment and to lower prices. Engliš mentions that in this

case lower prices are parallel to increasing unemployment, whereas with deflationary crisis prices must be lowered first and only then comes unemployment. In overproduction, the trouble is caused by production, not by money. Therefore, the problem is not in the general lowering of prices, but in the change of price-relations.

Overproduction, however, is not limited to one particular product. Lower price decreases cost of production for its consumers, production is cheaper, net gain higher. This stimulates expansion of production until other products are hit by overproduction as well.

c) rationalization crisis is the third type. It is caused by real savings of cost, this referring both to material and labour. Hereby profit is increased, production stimulated. Of course, rationalization affects need of labour either directly in the given enterprise or indirectly — by material savings. Finally, this leads to freeing of labour. At the same time, due to rationalization, overproduction is stimulated as well. At a given price level, rationalization increases profits and hereby stimulates expansion of production. And here lies the danger of overproduction, says Engliš. The social crisis, unemployment, however, is the chief problem.

Nevertheless, Engliš is opposed to the opinion that unemployment caused by rationalization might result in a general crisis and overproduction by decreasing national income by the wages of the unemployed. This cannot happen. Either prices were not cut by the wages of unemployed workers and then there is a corresponding increase of profits, or prices were cut in proportion to lower cost of production and then the loss of unemployed means an advantage to other consumers. There is unemployment, but production does not suffer from any crisis. Prices will be decreased, but on the basis of lower cost. This is a basic difference in comparison with deflation. In that case, prices go down first and the cost of production must adapt itself. Neither does unemployment due to rationalization cause any serious problem. Competition of unemployed will lower wages, this enables the entrepreneurs to cut prices and to expand production. Lower money wages will retain the same or even higher real level. Rising wealth will reduce interest, this makes production more advantageous, enables to pay higher wages and in this way even the workers will be able to get their share in the social progress. Engliš admits difficulties during the adjusting process. He is, however, convinced that they may be overcome with the help of the state, by shorter working hours and even with unchanged wages.

This is in general Engliš's theory of equilibrium and crisis. Now, let us examine it critically both from the gnoseologic and social-economic point of view.

First of all, Engliš's conception of crisis as a disturbance of equilibrium is wrong. Crisis does not mean a disturbance of equilibrium, crisis is the result of such a disturbance which existed before the crisis latently. The anarchy of capitalist production leads inevitably to disproportionality and crisis is but a means to restore equilibrium (in the sense of proportionality).

Not only that. Engliš gives „crisis“ quite a new meaning. He considers as crisis every disturbance of equilibrium, may it be favourable or unfavourable, may the volume of production grow or fall with such a „crisis“. In this way, of course, he deprives crisis of its clear social-economic meaning as a means of temporary solution of the contradictions of capitalist reproduction accompanied by a temporary fall of economic activity. His conception leads to conclusion



that crisis is not always a negative phenomenon as there may be a favourable crisis as well. Calling every disturbance of equilibrium a crisis, however small it may be, leads to the same apologetic goal. The significance of the conception „crisis“ is hereby dissolved and in essence belittled.

Drawn to consequences, Engliš's identification of crisis and disturbance of equilibrium leads to further absurdities. Engliš thinks equilibrium equally possible at a high and low level of economic activity. This is undoubtedly a reflection of the new Keynesian conception of equilibrium. He asserts that even transition to a revival may mean crisis if the economy was in equilibrium before at low activity, i. e. if the extent of production was equal to the extent of effective consumption and the respective prices were equilibrium prices. In this way, there would be no crisis at all. This case is, however, inconsistent even with Engliš's theory. His equilibrium theory requires equilibrium in all four markets (goods, capital, labour, foreign exchange). Now we may admit the possibility of equilibrium in the capital, goods and foreign exchange markets at low activity. No such equilibrium, however, is thinkable in the labour market. It would mean that with low wages workers would lose interest in jobs and that there would be a low supply of labour corresponding to low wages. This is impossible, of course. The only means of existence for a worker is to sell his labour force. He cannot withdraw the supply of this commodity from the market. It is evident that with a low level of activity there will always be disequilibrium at least in one market. From this it results that Engliš's assumption of equilibrium even with a low level of activity is unthinkable. Striving to veil in fog the social-economic meaning of crisis Engliš defeats himself.

Engliš emphasizes that equilibrium itself is but an ideal construction because in reality there are permanent changes. All we can talk of is a „dynamic equilibrium“. To a certain extent, we may agree with this. This, however, leads to an interesting consequence for Engliš's theory of crisis. If there are permanent changes, bigger or smaller, going on in the economy causing respective disturbances of equilibrium, then it means that capitalist economy suffers from a permanent crisis. The only problem is whether this crisis is serious or insignificant. Engliš says that our attention is absorbed by serious crises only. Then, nevertheless, there are only quantitative differences and a big disturbance does not mean anything new from this qualitative point of view. We see again Engliš's distorting the specific meaning of crisis.

Engliš's conception of imaginary equilibrium as antithesis to crisis has still another side. The essence of this equilibrium is in the fact that with given prices consumption of various goods should be equal to production and vice versa. Analogically for labour and capital. Basically, the problem is in a certain proportionality of production and distribution of labour. It is well known that this question is an important part of the Marxist theory of reproduction. It is also well known that the Marxist theory succeeded in solving it even for the expanded reproduction. It demonstrated the necessary conditions for this case and showed that „equilibrium“ understood in this way can only be reached in permanent movement of capitalist economy conditioned by its contradictions where equilibrium is but a moment in a series of disequilibria. It is important, however, that expanded reproduction is perfectly consistent with equilibrium.

Engliš, on the contrary, considers equilibrium thinkable (in the sense of

abstract proportionality) only in a perfect stationary state with unchanging production and technique. For Engliš, this stationary state is a normal state of capitalist economy, a state which is somehow disturbed by external impacts. Movement, development, change is a foreign element for him, a disturbance of the normal state of economy.

This is of course in sharp contradiction to reality. To the capitalist economy the tendency to expansion is inherent, it is its important feature. For Engliš, however, stagnation as a condition of equilibrium implies that he examines capitalism from the point of view of simple reproduction only. He does not consider accumulation. According to him, expanded reproduction itself includes the necessity of disequilibrium and, consequently, the necessity of crisis. From this it results that the growth of economy is equal to growth in crises. This is true of course as far as the concrete development is concerned. Nevertheless, as Marxist theory of reproduction proves, it does not follow from it that expanded reproduction is only feasible through disequilibria, in other words, through disproportionality. This is proved by the development of socialist economy.

Engliš always stresses the abstract character of his theory. This should be understood so that he is interested in changes of relations between certain economic quantities causing crisis of the respective economy, not in the causes of these changes which may be of the most varied origins. Their effects, however, can only be understood on the basis of the „vital ordering principle“ of the economic set. From this it follows that economic theory studies the disturbance of equilibrium caused by a shift in relations between economic quantities, not the causes of these shifts.

True, Engliš does not say that we cannot learn anything about the causes of crises. But he thinks them secondary for the theory of crisis, They are the object of study of another science which is a supplement to the abstract theory of crisis. Expressed in concrete terms: The „vital principle“ of the capitalist economy is profit and from this point of view all influences affecting this economy must be viewed. In certain conditions this economy will be in equilibrium which will manifest itself by the fact that all production will be disposed of at given prices including the necessary profit. If equilibrium in one of the constituting markets will be changed, the whole equilibrium will be disturbed. The economy will get into crisis which will last until a new equilibrium is established. The disturbance may be due to most varied causes and so no general theory of crisis explaining it by a fundamental cause is possible. It is, however, possible to formulate an abstract teleological theory. This is the essence of Engliš's theory of crisis.

Its class meaning is very clear. It rests in its abstractness and in the secondary role it allots to causal relations. Hereby Engliš „succeeded“ in isolating crises from the contradictions of capitalism by eliminating causal relations from his theory. But such a highly abstract theory indifferent to concrete reality, a theory which did not seek causes, a theory which camouflages the connection between crisis and capitalism, this is a theory which suited perfectly the bourgeoisie endangered in its existence. For this purpose the conception of plurality of causes was acceptable too. If every crisis has its own cause, then every crisis is an independent phenomenon which must be examined in all respects indivi-

dually. It is clear what these opinions really mean. The purpose is to suggest that there is no necessary connection between crises and capitalism.

Capitalist relations of production are best and most clearly expressed in the sphere of production. If crisis is linked to the essence of capitalism, then it is evident that we must look for its roots in the sphere of production. Engliš seems to be well aware of it. That is why he is in a hurry to prove that crises do not have to arise always in production, resp. that crisis is not always identical with overproduction. It may originate e. g. from causes lying in the monetary system. In this case, Engliš has in mind especially the Great Depression 1929—1933 which, according to him, was caused by so-called, „gold deflation“ due to wrong credit policy. Then, crisis is not always a phenomenon connected with objective contradictions. It may be the consequence of wrong monetary and credit policy where the subjective factor is important. This is evident from the practice of deflation which may rest either on a too high rate of exchange or on internal restrictive credit policy. In this case the tendency to camouflage the nature and real causes of crises — the objective contradictions of capitalism — manifests itself very clearly and hereby the significance of crisis is belittled.

The same goes for Engliš's interpretation of the overproduction and rationalization crisis. In his opinion, overproduction arises if the until then equilibrium price loses this character and cannot assure the sale of the full volume of production. This may be due either to the different valuation of the commodity by the consumers to its detriment, or there is a change on the side of production which is now more advantageous at the given price. In both cases production unit meets with difficulties, production must be restricted with unfavourable consequences for employment. The glut of goods makes price reductions necessary. Overproduction affects one commodity first, but has the tendency to spread. If the price of the product which is in overproduction drops, the following cases are possible: it may cheapen production of other products and thus raise profits. This gives a stimulus to expansion of production and finally even to overproduction. Or the commodity in overproduction is a substitute to other products. Then its lower price lures the demand away of them causing sales difficulties. Hence, overproduction hitting first one product will lead to general production and sales troubles and to a general fall of economic activity.

Rationalization has a similar effect. It means reduction of cost enabling lower prices. This stimulates sales of the product. Cheaper production, however, may outrun the possibility of sales. Besides that a situation similar to that accompanying an overproduction crisis may arise: increased sales of the product which benefited of rationalization at lower price will lead to sales difficulties for competing products. Rationalization will therefore result in a chain of price changes.

The main feature of the rationalization, says Engliš, is its social side, laying off of labour. This is due to direct savings of labour in the rationalized production or to indirect reduction of necessary labour through saving in material; this hits material producing branches reducing their activity.

Engliš however denies that the total national income would be reduced by the wages of ousted workers and that rationalization is apt to lead to serious troubles. All that may happen is a shift of purchase power from unemployed

workers to other consumers. Savings of wages will either increase profits of entrepreneurs (prices remaining stable) or prices will be reduced by these saving and then the purchase power of other consumers will be increased. Thus the detriment of unemployed workers means a benefit for other people. There is only one problem left — unemployment.

It is striking how Engliš metaphysically puts individual types of crises against each other and separates them although, on the other hand, he must admit that they have something in common. This is, of course, an artificial approach even if consistent with Engliš's logic. The close connection between rationalization and overproduction is beyond doubt. Engliš cannot but admit it himself while showing that overproduction may originate in the sphere of production. But in any case, he wants to prove that neither overproduction nor the effects of rationalization have anything to do with the antagonistic contradictions of capitalist production.

Let us see how he emphasizes that overproduction arises because of a change in the valuation of goods by the consumers or because of a change in the structure of incomes.

It is clear that in this way class relations and their influence on the aggregate demand are assumed away. Engliš emphasizes the subjective consumers' point of view, manifested in the change of their predilections, fashions etc. True, he mentions the change in the structure of incomes but he examines the consequence only with reference to a single commodity, not with reference to the aggregate demand. To sum up, overproduction has nothing to do with the class relations affecting creation of incomes, has nothing to do with inequality of the distribution of incomes as caused by the antagonism of capitalist economy. It is due only to a change in the use of given incomes. Then, looking at this problem from this point of view, Engliš is able to see overproduction as a problem but of a single commodity excluding the possibility of general overproduction.

The problem of overproduction is said to be a problem of a wrong incorporation of a certain product into the whole exchanging community. It is the result of a wrong relation between the volume of production and price and of a wrong exchange relation between commodities. If a product is too expensive it means that it is too expensive with respect to other competing products. From this it follows, says Engliš, that all products cannot be too expensive at one time and that they cannot suffer from overproduction all at once. Engliš asserts that the essence of the matter is in the fact that overproduction of one product causes a general reduction of activity because the reduction of the price of the overproduced commodity leads to the stagnation of production and sales of other products. In this way Engliš wants to prove that the disturbance of equilibrium results from temporary disturbances of exchange relations and not from a basic cause in the production and distribution of the product.

Thegnoseological root of Engliš's opinion concerning the problem of overproduction is Say's law of the markets which applies the conditions of simple commodity production to the capitalist production and identifies immediate exchange with exchange carried out by money. This theory admits only partial, no general overproduction. Say's wrong theory, refuted a long time ago is rejected even by many bourgeois economists. If Engliš resorts to it, it is only

motivated by his class point of view, by his efforts to prove that overproduction crisis has nothing to do with the nature of capitalism causing sharp shifts in the distribution of incomes. He wants to prove that overproduction has nothing to do with the fact that capitalism holds the purchase power of the great mass of consumers within narrow limits whereas it expands production and productive forces without respect to it.

To be able to reach these conclusions, Engliš examines overproduction on purpose of one isolated product and moreover, he deduces it both of changes in consumption and in production as if both factors were of equal importance. It is evident that general overproduction can hardly be due to changes of consumption, because (with given incomes) consumption of all products will not decrease. It is however quite different if we examine production where incomes (and, then conditions of consumption) are created. Engliš asserts that in the sphere of production overproduction will be caused by real savings (due to rationalization) or money savings of wages both real in terms of labour or money saving. But he always examines these circumstances as isolated individual cases occurring in the production of individual products resp. in individual enterprises and he ignores their effect on the aggregate income and situation of the workers. In this way the total contradiction between production and consumption disappears of course as well as its connection with the process of capitalist accumulation — with the growth of the organic composition of capital and with the reserve army of the unemployed workers. Almost every part of Engliš's work testifies an effort to belittle the relation between the distribution of national income and overproduction. And here we have to do before all with aggregate relations, with class relations. Creation of incomes and their distribution on the basis of capitalist relations of production, this is the root of the contradiction between production and consumption, not the way given incomes are used up, as asserted by Engliš.

He always tries to circumvent these realities. We have seen above that he underestimates the significance of productive consumption. Now again he ignores the significance of personal consumption in the process of reproduction. This leads him to the conclusion that the most important means to overcome crisis is reduction of cost including wages of course. In this case an overproduction crisis caused by reduction of wages cost, both real or nominal, should be overcome by a further reduction of wages.

Engliš's indifference to personal consumption manifests itself very sharply in connection with his opinions on the effects on rationalization. He emphasizes, as we have seen that in this case production suffers of no crisis in spite of rising unemployment. The whole volume of production can be sold, hence production is in equilibrium. But following question presents itself again: is a general equilibrium possible, if there is a disequilibrium on one of the constituting markets — on the labour market? The answer is evident. And what about production working for a consumption whose basis is being restricted? How long can such an „equilibrium“ last? Engliš is naturally in a hurry to refute this objection. Saved wages are said to increase profits of the entrepreneurs, this being compensation for the wages of ousted workers or it makes possible a reduction of prices to the benefit of all consumers. These arguments rest on very shaky grounds. We can hardly suppose that capitalists will compensate for the consumption of laid — off workers. This would mean that

they produce for personal consumption, not for profit. It is more probable that with higher profits capitalists will increase accumulation, that they will carry on further rationalization. So the problem will sharpen again. Again we see how Engliš avoids the true causes of the contradiction between production and consumption. He sees a mechanical, metaphysic „equilibrium“ between production and consumption for which the purchase power and standard of life of the chief mass of consumers is of no importance.

But what will happen to the unemployed? Engliš admits that their living standard will be temporarily lowered and that in the meantime workers will not benefit by rationalization. But he asserts that rising wealth will reduce interest, stimulate production and in this way wages will be raised again. Productivity of labour will increase thanks to better machinery and entrepreneurs will be therefore readier to pay higher wages. Engliš wants to prove a common interest both of workers and of capitalists in rationalization. He ignores the fact that in capitalism wages are in no direct connection with productivity, that rationalization in capitalism will be accompanied by dequalification of labour and that less qualified labour will have to be satisfied with lower wages. Engliš's economic way, however, is a world of class harmony.

Our analysis of Engliš's conception of equilibrium and crisis disclosed the apologetic and therefore unscientific character of this theory. It identifies crisis with any shift from ideal, imaginary equilibrium even if it were a shift meaning revival. In this way this theory not only separates crisis from the essence of capitalism but thoroughly distorts the meaning of this word as well. There remains but a word which may be interpreted quite arbitrarily. Assertion that crisis is not identical with a low state of economic prosperity is but a play of words purporting to belittle the meaning of crisis and of its social-economic significance. There is no doubt that Engliš's theory had a definite aim — to avert attention from the true essence and causes of crisis. In reality, however, it showed the decadence of economic thinking of this representative school of bourgeois political economy in Czechoslovakia.

#### NOTE

<sup>1</sup> Besides Engliš, these economists are to be mentioned among the adherents of the Brno economic school: Václav Chytil, Vladimír Vybral, both professors of political economy at the Faculty of Law in Brno, Imrich Karvaš, professor at the Faculty of Law in Bratislava.

### TEORIE ROVNOVÁHY A PROBLÉM KRIZE

*(Příspěvek ke kritice brněnské ekonomické školy.)*

Stať se zabývá teorií rovnováhy a krize v podání brněnské ekonomické školy, jejímž zakladatelem byl Dr. Karel Engliš, profesor právnické fakulty v Brně, několikanásobný ministr financí buržoazní československé republiky a též guvernér její Národní banky.

Tato teorie chtěla prokázat, že kapitalistické hospodářství má přirozenou tendenci k rovnováze zakládající se na soustavě cen statků, práce a kapitálu, zabezpečujících rovnováhu mezi nabídkou a poptávkou. Tím je udržován i rovnovážný pořádek mezi jednotlivými výrobními a spotřebními jednotkami. Prostřednictvím trhu deviz je pak udržován rovnovážný pořádek i mezi hospodářstvím jednotlivých států. Krizi chápe tato teorie jako každou poruchu rovnováhy. Popírá, že by bylo možno krizi ztotožňovat jen s nízkou úrovní hospodářské činnosti. Rovnováha je prý totiž možná i při nízké hospodářské aktivitě a proto přechod

