

## 200 YEARS OF FINANCIAL EDUCATION AT TARTU UNIVERSITY

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### ■ Introduction ■

In order to better understand social phenomena and development you have to view and analyse them in time and space. We know that economy has its origins in the production of the means of subsistence by our distant ancestors. Economic interaction has been central also in the emergence and development of money. Professor Glyn Davies in his monograph *A History of Money from Ancient Times to the Present Day*<sup>1</sup> has given the most thorough survey of the history of money, which has been considerably supplemented by the chronology bearing the same title, compiled on the basis of the monograph and available on the Internet<sup>2</sup>. One might ask why refer to an in-depth study of the history of money when discussing research and teaching of monetary issues at Tartu University? Because **the development of money and monetary relations and their teaching throughout times suggests that, besides economic factors, political, military, social, psychological and various other factors have played a much more important role in this development than previously thought.** Keeping this in mind we can better understand the processes taking place in today's globalising financial world and the development of financial education at Tartu University over the past 200 years.

Tartu University as the cradle of Estonian science and a symbol of its continuity is a good object of study in this respect. Established in 1632 as a Swedish university, it has changed names due to political and military events, but even bigger changes have occurred in its contents, in response to the demands of time, scientific developments, political pressure, etc. Alongside natural development there have also been a number of serious setbacks.

### ■ Systematic Financial Education at the Imperial University ■

The year 2002 marked the 200<sup>th</sup> anniversary of the opening of Imperial Tartu University, an event that historically has more than one meaning. The most important of them is overcoming the gap of 1710–1802 and continuity of teaching. In the days of the Swedish university, the theoretical basics of economy were taught by professors of history and

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<sup>1</sup> University of Wales Press, Cardiff, 1996.

<sup>2</sup> <http://www.ex.ac.uk/~RDavies/arian/amser/chronol.html>

the basics of economic accounting by professors of mathematics. By the 19<sup>th</sup> century, economic science focused on the studies of Adam Smith and others. In Western Europe, and particularly in Germany, broad applied science called cameralistics<sup>3</sup> evolved on the basis of all this, which mostly concentrated on the calculation of income and expenditure of the feudal state and the feudal landlord. This explains the possibility and necessity of setting up a Chair of Trade and Finance at Imperial Tartu University.

The statute of the reopened university was confirmed by Emperor Alexander I of Russia on 12 September 1803. Under this, the Faculty of Philosophy comprised four departments and the department of technical and economic sciences had four professorships, including the Chair of Cameralistics, Finance and Trade<sup>4</sup>.

The first professor of the Chair of Cameralistics, Finance and Trade was Friedrich Eberhard Rambach, PhD, from Berlin, who occupied this post for 23 years until his death. He lectured on state economics, theory of the national economy, money circulation and payment instruments. His successor was Eberhard David Friedländer, who lectured on the same disciplines for the next 25 years. His research focused on state economics and the theory of value. The lecturers and the chairs changed but teaching of finance continued. A more detailed overview is available by Endel Jaanus<sup>5</sup> and Valner Krinal<sup>6</sup>.

From 1850, the Chair of Cameralistics, Finance and Trade was moved to the Faculty of History and Languages. In 1853, Julius Octavianus Mikszewicz, born near Kaunas, Lithuania, was appointed regular *privatdozent* of this chair. He was a graduate of Tartu University and defended his thesis there. After he left to become professor and rector of Kazan University, his post went to Johann Theodor Grass, a son of a Riga merchant. This indicates that the origins and impact of financial education had already reached an international scope. Since the development of the market economy and the victory of the classical school reduced the importance of cameralistics, the chair was renamed the Chair of Political Economy in 1865<sup>7</sup>.

From the very start, Imperial Tartu University was in fact a German university, since most of the prominent professors came from Germany. It was from Germany that new knowledge and political views reached Tartu. Special mention should be made of Adolph Wagner, although he worked in Tartu for just four years (1865–1868). Among other disciplines, Wagner taught financial statistics and his earlier and later major studies concerned the theory of money and credit, public finance and social economics. He was one of the first to stress the need of state interference in economic and social affairs.

However, it is difficult to evaluate the impact of German professors and teaching of economics on local community. Although the majority of Tartu students came from the

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<sup>3</sup> Cameralistics – a body of administrative, economics and financial knowledge in the 17th–18th century Germany.

<sup>4</sup> Siilivask, K. ed (1982), *'Tartu Ülikooli ajalugu 1632–1982'*, Vol 2, Tallinn, Eesti Raamat.

<sup>5</sup> Jaanus, E. (1980), *'Majandusteaduse õpetamisest Tartus möödunud sajandeil. TRÜ majandusteaduskonna ajaloost ja tänapäevast'*, Tallinn.

<sup>6</sup> Krinal, V. (1999), *'Tartu Ülikooli majandusteaduskonna minevikust ja tänapäevast'*, Tartu Ülikooli Kirjastus.

<sup>7</sup> Siilivask, K. ed (1985), *'History of Tartu University 1632–1982'*, Tallinn, Perioodika.

so-called Baltic provinces, most of them were from the wealthy Baltic-German families. Russification that began in the last quarter of the 19<sup>th</sup> century intensified political struggle even further. In 1889 Russian became the official language of tuition, which meant that German professors were replaced with the Russian ones. The upshot of this was that part of the students transferred to universities in Germany. In 1891, the university was renamed Imperial University of Yuryev and its autonomy was curbed.

## ■ Financial Education in the Republic of Estonia ■

Independent Estonia needed its own leaders in economy. This was first of all felt in trade. At the request of the Ministry of Trade, Department of Commerce was opened at the Faculty of Law in the autumn of 1920. As the actual need for executives and experts was very wide, economic community asked for the expansion of the department. There was a need for qualified bank staff, accountants, civil servants, etc. These issues have been discussed in more detail by Elmar Haljaste<sup>8</sup> and Valner Krinal<sup>9</sup>. The most acute problem in organising studies was the lack of qualified teaching staff. The earlier practice of inviting guest professors was abandoned though. Instead, various forms of retraining were used, such as acquiring additional qualifications through private studies and secondments abroad, re-qualification, etc. Leading politicians and specialists, who had been educated in other countries, also contributed. The most outstanding among them was the well-known politician, diplomat and businessman Nikolai Köstner, who also served as the government representative at Eesti Pank after the banking and monetary reform in 1928–1932.

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Curricula were amended and improved in line with new possibilities and needs. Major changes took place in 1935 and 1938. On 1 January 1938 the Faculty of Economics was established, marking the transition to advanced studies. The four-year course was divided into general studies and special courses; general studies covered six semesters and special courses two semesters. The students had three choices for majoring: national and state economy, economics of trade and industry and insurance economy. The faculty had 11 chairs, including professorships for banking and insurance.

Students of economics formed the second largest contingent among the student body after students of law, with medical students on the third place. The number of economics students peaked in 1926, when 936 of them accounted for 20% of the university's total student body. With minor fluctuations, such a proportion was maintained until 1940. Diplomas were awarded to 913 graduates, which accounted for one sixth of the total number of graduates. The number of graduates was smaller because many economics students combined studies with work.

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<sup>8</sup> Haljaste, E. (1980), 'Ülevaade Tartu Ülikooli majandusteaduskonna arengust 1920–1940', in collection *TRÜ majandusteaduskonna ajaloo ja tänapäevast*. Tallinn.

<sup>9</sup> See Footnote 6.

What was the role of the Faculty in preparing financial experts? Considering the study and work conditions of that time, there is no one-way to tell. The first classes of graduates were relatively universal, due to the nature of the teaching staff and study conditions. In a practical work situation there was no distinct specialisation either, since the company accountant was at the same time also the financial manager, etc. In banking and financial institutions work was more specialised but there, too, the profile of a specialist developed in the course of work. Often the determining factor was that studies were taken up from the workplace and frequently students also continued to work during their studies. More precise specialisation occurred in the course of work and studies. Transition to advanced studies mentioned above meant a more profiled preparation but the turn of historical events did not allow the results of it to be seen.

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It must also be kept in mind that for a long time teaching of financial specialists took place in the Faculty of Law. However, this was not just the case with Tartu University. By nature, market economy links financial issues with precise legal regulation and the respective case law. Therefore, many financial managers came from among lawyers. Thus, the first Governor of Eesti Pank, Mihkel Pung had a law degree, as well as the long-time Governor Jüri Jaakson and Governor of the transition period Juhan Vaabel, whereas Pung and Vaabel were both graduates of Tartu University.

In terms of the number of publications the contribution of university professors to financial literature and research was relatively limited. Copying of lecture notes was practiced. Study notes *Riigimajandusteadus* (State Economics) based on lectures by Professor Juhan Vaabel and published in 1938 by Johannes Mäll stood out for their well-systematised contents. Master of Arts Karl Inno planned a multi-volume handbook *Pangatehnika* (Bank Technique) aimed, first and foremost, at credit societies, of which only the first volume was published in 1938. However, as a systemic example, this handbook deserves a special mention and it is still in use even today. To commemorate Karl Inno, Tartu University created a scholarship in 1995 to be awarded to students of finance and banking. The first Karl Inno scholarships were granted to Anu Algoja and Olga Luštšik, who have both continued financial studies after the bachelor's degree.

*Finantsmatemaatika* (Financial Mathematics) published by Arnold Humal in 1940 is also very valuable today as to its contents and methodology. In research, particularly from the point of establishing and applying standards, two works by Professor Juhan Vaabel serve as examples in the field of law. These include *Eesti riigi-maksudusõiguse põhiprobleeme* (Key Issues of Estonian State Taxation Law) published in 1934 and *Sissejuhatus finantsõigusteadusesse* (Introduction to Financial Law) published in 1939. The former was reprinted in 1995 on the initiative of Professor Peeter Järvelaid and with the sponsorship of Hansapank. Let us hope that this example will help to further research in financial law today as well. There is serious need for it in both practical life and legislation.

## ■ Development of Financial Education ■ in the Years of Occupation

After Soviet Union annexed Estonia, the preparation of economic specialists was concentrated into the Tallinn Technical Institute from the first semester of 1941. During the German occupation, the Faculty of Economics was moved back to Tartu in October of the same year. Nine former economics teachers of Tartu University returned as well, including Adjunct Professor Karl Inno and Temporary Lecturer Rudolf Jalakas. After the restoration of independence, Rudolf Jalakas participated actively in restoring the Estonian monetary and banking system in the 1990s, being a member of the Estonian Monetary Reform Committee and Eesti Pank Board. In the autumn of 1944, the Faculty of Economics was once again transferred to Tallinn where it worked under the Tallinn Technical Institute. The faculty trained economics professionals for industry, trade and finance.

At first, the teaching of special subjects was not politicised and the lecturers represented the old school. The aim was to enhance independent thinking of the students. In the first post-war years, when inspectors were unable to grasp the meaning of all subjects, trade arithmetic was taught, which developed economic thinking with the principles of financial mathematics. The teacher was Professor Albert Borkvell. However, his last course of lectures took place in 1947. In 1949, no more students were admitted to the specialties of finance and credit as these were supposed to lose their importance due to money losing its

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significance. Political pressures increased in all areas. All teachers, excluding those who taught political subjects, had to attend evening courses of Marxism and Leninism. The Faculty of Economics, which comprised the departments of Industrial Economics, Commercial Economics and Finance and Credit, was treated as second rate. The then management of the institute considered only industrial economics as more or less acceptable.

We believe that the repeated relocation of the Faculty of Economics was not directly caused by the forceful incorporation of Estonia into the Soviet Union. Under the structure used there, economics faculties did not belong to the same department as technical schools at the Ministry of Higher Education and this worried the management of the Tallinn Technical Institute. Later, this argument was used as a weighty motive for getting rid of the economics faculty.

Despite political dogmas, which were amplified by Stalin's book *Economic Problems of Socialism in the Soviet Union*, real life turned out to be different. The need for specialists familiar with financial matters remained. Respective requests of central institutions to planning organs increased particularly after the death of Stalin. His idea that mercantile and financial relations would gradually be replaced by the system of exchanging products disappeared relatively quickly from theoretical thinking. At that time higher financial education in Estonia was provided by the Tallinn branch of the USSR Extramural Institute

of Finance. But it trained people who were already working in finance, not new specialists in this field. At the same time, the salaries of financial and particularly bank employees were extremely low and the turnover of staff was high.

The management of the Estonian Office of the USSR State Bank was particularly active in their requests for beginning training of financial experts. Alongside with other factors the above was one of the reasons why it was decided to restore training of finance and credit professionals in Estonia in 1954. As the management of the Tallinn Technical Institute was opposed to the idea, the only solution was Tartu University. The Technical Institute took advantage of the situation and got rid of the department of trade as well. This process has been described in detail by Professor Valner Krinal, whose study we have repeatedly referred to above. Several others directly involved in these events have written about it in the book *TRÜ majandusteaduskonna ajaloo ja tänapäevast* (On the History and Present Day of the Faculty of Economics of Tartu University). In 1994 the topic was also briefly touched by Raimund Hagelberg and other speakers at the conference dedicated to the 75<sup>th</sup> anniversary of the national university<sup>10</sup>. Therefore, we will only mention some main issues below.

**Everything had to be started literally from scratch.** The property and databases that had belonged to the Faculty of Economics in 1940 had been completely lost in the meantime, also due to repeated relocations. The premises of the university had been considerably reduced due to the war and numerous redistributions. The unexpected addition of the Faculty of Economics worsened the situation even further. Mostly for political reasons, former teachers were scattered all around the world. Although with some difficulties, four main lecturers came along from Tallinn: Assistant Professor Feliks Sauks and Senior Lecturer Herman Pauts who taught commerce, Senior Lecturer Uno Mereste from the Technical School of Finance and Senior Lecturer Raimund Hagelberg from the Economics Institute of the Academy of Sciences. Among them, only Sauks and Hagelberg had a degree in economics. Besides teaching, Hagelberg also had to prepare the launch of courses in finance and credit.

**The content of the studies was put to the fore.** Professional skills were measured by the teachers' conscience. Until several different subjects had to be taught by one and the same teacher, their conscience was not always satisfied, but the students seemed to treat the situation with the sense of understanding and positive attitude.

Political bias of official curricula was another problem, although word-for-word adherence to curricula was not checked. All the above teachers had some experience of the Tallinn Technical Institute's Economics Faculty – Sauks and Pauts had been teachers and Hagelberg and Mereste had been students. It soon became clear that all of them had proceeded from the principle that priority be given to teaching economic thinking and generalisation of facts. Political evaluation of the facts was trusted to the students themselves. Written study materials for independent work were compiled for the so-called

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<sup>10</sup> *Majandusteadus ja majandusharidus Eesti Vabariigis*, Tartu, 1995.

more delicate topics of the curriculum. In finance and credit one example of such topics was the historical survey on how taxes were used to fight for transition to socialist economy. Students probably sensed that such materials would not be included in tests and exams. However, the study materials served as proof during possible inspections that the respective part of the curriculum had been passed. Teachers of the Faculty of Economics soon realised that no such inspections were carried out at the university and instead of the games of hide and seek more time and effort was put to in-depth studies.

Additional opportunities for a more creative approach were provided by rearrangements prompted by the shortage of teaching staff and rooms. The university management allowed changes in the all-Union study plans so that in trade as well as finance and credit the first and second year students attended joint courses of lectures, followed by three years of narrower specialisation. This allowed a better choice of elective courses provided in the standard curriculum. Thanks to this, the students of finance and credit studied two definite subjects in their third or fourth year – *money circulation of capitalist countries* and *finance of capitalist countries*. These provided the students with a survey of the functioning of finance in other parts of the world.

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The finance and credit speciality was founded by Professor Juhan Vaabel in 1944 when the Faculty of Economics was still working under the Tallinn Technical Institute. Until 1949 he was also the Head of the Chair of Finance and Credit, followed by Senior Lecturer Aurelius Mandel, who headed the chair until its liquidation in 1951. Tartu State University's speciality of finance and credit in essence carries on the spiritual legacy of Professor Vaabel and his

support, advice and best wishes followed the speciality until his death in 1971. Due to his participation in the joint doctoral thesis council of the faculties of law and economics, this council had the right to arrange thesis defending also in the field of finance and credit.

In 1954, 60 full-time and 79 part-time students were transferred to Tartu from the Tallinn Technical Institute. On 1 September 1954, 25 full-time and 10 part-time students were admitted to the speciality of finance and credit besides those specialising in commercial economics. In 1958, the Chair of Finance and Credit was opened, headed by Professor Raimund Hagelberg until his departure for the Tallinn Academy of Sciences in 1981.

In the early years of restoration the Department of Economics did not measure up to an independent faculty. Therefore, **it was set up under the Faculty of Law and Economics**. The gradual increase in the number of specialities led to the growth of the student body. Besides the Dean of the Faculty of Law, Assistant Professor Karl Püss, the specialities of economics were supervised by Assistant Professors Sauks and Hagelberg, and gradually a new faculty emerged in the management structure: in 1962 the post of Assistant Dean was set up and from 1 September 1968 an independent Economics Department was established. But before that, another attempt was made in 1964 to move economics studies back to the Tallinn Technical Institute.

The speciality of finance and credit has one advantage over other economics specialities – it has a wide profile. Therefore, graduates have been able to find work in a diversity of areas and hence the large number of students. In 1944–1994, the speciality had 1,812 graduates, including 830 graduates of correspondence courses. This figure was higher than any other speciality and it accounted for 32% of the total number of graduates of the Faculty of Economics. Among the academic staff, Raimund Hagelberg, Uno Mereste, Vambola Raudsepp, Heino Siigur, Mart Sõrg and Elvi Ulst have obtained the doctoral degree. The first two have also been elected academicians of the Estonian Academy of Sciences. Several teachers and alumni of the chair have been awarded the Candidate of Economic Sciences degree. Two Governors of Eesti Pank, which was restored in 1990, have also graduated from the speciality of finance and credit – Siim Kallas and Vahur Kraft. Both are still cooperating with the university. Thus, finance education provided the necessary knowledge and adequate mental outlook to the graduates so that they could take up top positions in leading the country to the market economy after the end of the Soviet occupation.

### ■ Financial Education after the Restoration ■ of Independence

The Faculty of Economy reacted quickly to the introduction of market-economy elements in the socialist planned economy in the second half of the 1980s. In 1987, the Faculty actively supported the idea of self-managing Estonia, helping to draft the concept and taking part in the related public discussions.

The changing economic environment created a need for reforming economic education and research, including financial education and research. In 1989, the drafting of a new curriculum was begun and in 1991 students were already admitted under the new curriculum. It consisted of a two-year basic programme, which was the same for all students of the Faculty of Economics. It was followed by a two-year main course combined with a parallel specialisation in one of the two fields. Post-graduate studies took place in the framework of two-year Master's programme and the four-year Doctor's programme<sup>11</sup>.

In the course of the structural reform, sub-departments were replaced by chairs and units. The sub-department of Finance and Credit was divided into three: the Chairs of Money and Banking, Corporate Finance and Investments and the unit of State Finance. The sub-department of Accounting and Analysis was divided into the Chair of Financial Accounting and the unit of Analysis and Control. As these chairs and units were quite small, they needed an umbrella

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<sup>11</sup> Strategic Development Plan of the Faculty of Economics of Tartu University, 1994.

organisation to coordinate their work – the Institute of Finance and Accounting. In the course of later reorganisation, the unit of state finance, the Institute of National Economy and the respective unit were closed. The teaching of accounting has again been brought under the Chair of Accounting.

In the first post-reform years the Institute of Finance and Accounting was one of the most important institutes of the faculty as three out of the six specialist disciplines were taught there. The number of students in groups was set at 60. Due to the heavy load, the Institute wanted to reduce the number of students admitted to the third year banking and corporate finance groups to 50 in the autumn of 1994 but the management of the Faculty decided to keep the number of places at 60, reacting to the students' letter of appeal and great interest in these specialities<sup>12</sup>.

The former staff continued teaching finance and accounting also under the new curriculum, with the leading staff members attending refresher courses abroad, at the Bentley College and other universities. A new generation of academic staff has been added who are involved in teaching and research besides their doctoral studies (lecturer Priit Sander, researcher Janek Uiboupin, assistants Sirle Kasendi and Kaia Kask, etc).

Reforms have continued in financial education also at later times. The reduction of the number of banks and lower demand for employees has led to the merger of the specialties of banking and corporate finance into finance. In 2002, correspondence courses of banking and insurance were transferred from under the Estonian Banking Association to the Institute of Finance and Accounting. This allows bringing theoretical studies even closer to the needs of financial organisations.

200 years of financial instruction at Tartu University has allowed us to respond to changing circumstances and keep up with the modern times. The continuing popularity of the speciality and the successful careers of alumni serve as proof of it. Doubtless, this has been achieved thanks to knowledge-thirsty students, highly qualified teachers, extensive network of research connections both at home and abroad, as well as the aura of the *alma mater*.

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<sup>12</sup> Raudsepp, V., Sõrg, M. (1995), 'Rahandus- ja arvestusteadus ning -õpetus Tartu Ülikoolis' in *Majandusteadus ja majandusharidus Eesti Vabariigis*. Tartu.